Secrets of Self-Made Millionaires

How You Can Create an Extraordinary Income and Build a Million-Dollar Net Worth… Starting from Scratch

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Published by Adam Khoo Learning
Technologies Group Pte Ltd
10 Hoe Chiang Road
#01-01 Keppel Towers
Singapore 089315

First published 2006

ISBN 981-05-5284-X

Cover by Jason Chua
Edited by Betty L. Khoo
Illustrations, Design & Layout: Tan Mui Siang & Susan Lua

Printed in Singapore
by Seng Lee Press Pte Ltd

Printed on excel bulky satin made from total chlorine
free pulp, environmentally friendly paper.

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Also By the Same Author
I Am Gifted, So Are You!
Master Your Mind, Design Your Destiny
Clueless in Starting a Business
How to Multiply Your Child's Intelligence

Dedication from the Author Adam Khoo
Dedicated to my Daughters Kelly and Samantha Khoo

Special Thanks to
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Roboform.com
Serenityhealth.com
Smartcover.com
Singapore Exchange Limited (SGX)
Wire-sculpture.com
Wordtracker.com
Yahoo! Search Marketing

Acknowledgements

To my parents Vince, Betty and Joanne who have given me unconditional love and support throughout the years. To my wife. Sally who has been my pillar of inspiration and strength. To my two daughters Kelly and Samantha who make me smile everyday. To my partner, Patrick Cheo, who has been sharing my vision and continually pushing me to the next level. To my partner Stuart for being the ultimate tag team partner for joining me on this amazing mission of empowering lives. To Zachary Low for being a great friend and business partner I can always depend on. To Gary Lee for years of friendship and support. To my trainers Amin Morni, Ramesh Muthusamy, Melvin Chew, Danny Tong, Yuan Yee and Jeff who keep bringing our programs to a higher level through their passion and dedication.

To the entire staff of Adam Khoo Learning Technologies Group, Adcom and Event Gurus who have tirelessly spent all their weekends and late nights working to build the companies at an incredible rate. Special thanks to Andrew Ling, Cindy Lim, Cherie Kiew and Kelly Yee for a great job in putting the whole book together.

This book is also dedicated to the hundreds of coaches & Whoosh members who have volunteered their time to continuously come back and coach for the Superkids™, 'I Am Gifted So Are You!™', 'Patterns of Excellence™' and 'Wealth Academy™' programs.

To all my principals, teachers & lecturers from Ping Yi secondary school, Victoria Junior College and The National University of Singapore who have played a tremendous part in shaping the person I am today. Especially to Prof. Wee Chow Hou, Mrs. Lee Phui Mun, Mrs. Ng Gek Tiang, Dr. Kulwant Singh & Dr. May Lwin. To my mentors and trainers who have helped me discover the true power within myself. To my first mentor, Ernest Wong who taught me who I am. To Dr. Tad James, Dr. Richard Bandler, John LaValle, Tony Buzan, Brad Sugars, Robert G. Allen and Anthony Robbins all of whom have taught me the invaluable strategies of wealth and success.

To the management and staff of American International Group, John Hancock, Prudential Life Assurance, Great Eastern Life, Lux Asia, Ngee Ann Polytechnic, NUS, NTU, Youth Challenge, Marshall Cavendish, Prentice Hall & Dennis Wee Realty for your invaluable support.

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About Adam Khoo

Adam Khoo is an entrepreneur, a best-selling author and a peak performance trainer. A self-made millionaire by the age of 26, he owns and runs three businesses with a combined annual turnover of $20m. He is the Chief Executive Officer of Adam Khoo Learning Technologies Group Pte Ltd, one of Asia's Largest Public Training Companies and Education Group.

Adam is also the best-selling author of four books including 'I Am Gifted, So Are You!' that was ranked the MPH#1 best-seller in 1998 and 1999. He also co-authored 'How to Multiply Your Child's Intelligence' & 'Clueless in Starting a Business'. His fourth book is 'Master Your Mind, Design Your Destiny' which was the second highest selling book in Singapore in 2004 and has been on the Straits Times Life! best-sellers list for thirty-six weeks.

Adam holds an honors degree in business administration from the National University of Singapore. As an undergraduate, he was ranked among the top one percent of academic achievers and became a pioneer in the Talent Development Program.

Over the last 15 years, he has trained over 245,000 students, teachers, professionals, executives and business owners to tap their personal power and achieve excellence in their various fields of endeavor. Some of his corporate clients include Tupperware, Ministry of Defence, The Singapore Police Force, American International Assurance, Prudential Assurance Company, Lux Asia, Rolls Royce Marine, Hewlett Packard, Legal Aid Bureau, Singapore Telecoms and many more.

His success and achievements are regularly featured in regional media like the Straits Times, the Business Times, the New Paper, Lianhe Zaobao, Channel News Asia, Channel U, Channel 8, Newsradio 938, The Hindu, The Malaysian Sun and many more.

SEVEN STEPS TO FINANCIAL ABUNDANCE

section I

chapter 1

Secrets of A Self-Made Millionaire

First, I would like to thank you for picking up this book. Your investment of time and money in reading this book only means that you know you can and deserve to make a lot more money and achieve greater wealth in your life.

You know that you can achieve the wealth that will allow you to experience the freedom and security that you deserve. Money that will allow you to live the lifestyle of your dreams, to do what you truly love, to buy what you have always wanted, to share it with the people you care about and to make the world a better place through your generosity.

Well, I have great news for you. You already have in your possession, the greatest money making asset that you will ever need. You have the exact same raw materials available to you as what Bill Gates, Warren Buffett or Donald Trump started off with.

The Greatest Money Making Asset That Will Make You A Fortune

So what is this one asset that all of us already have at our disposal?

No, it's not your double degree, MBA or PhD. from the best universities. And no, it's not the inheritance the 'lucky' get from rich dad, rich uncle or rich grandma to kick-start their business.

No, this asset is so powerful that it will not just give you a 4% return like the bank or even a 20% return which you would expect from the stock market. This asset has the potential to give you infinite returns. In fact, it can, if passionately developed, give you a 1000% return on your time investment.

The asset I am talking about is something that all of us have been given at birth. It is an asset that all of us have in common.

It is this one single asset that will generate for you unlimited wealth. This asset is your mind, also known as your intellectual asset!

When you invest time and money to expand your knowledge and skills, especially your financial education, it will return you millions of dollars in income streams for the rest of your life! And that is exactly the purpose of this book, to massively increase the power of your intellectual asset.

The reason why I believe in this so much is because like many self-made millionaires, I started with nothing but a hunger for knowledge of how to create wealth. Today, I can honestly say that the millions of dollars my partners and I have generated for our companies and our families have been spun off from nothing but the ideas in our heads. Ideas that would not have been there if not for the investment we had made in our financial education.

In the past, the majority of a company's assets were made up of physical stuff like machinery, plant, equipment and land. You would value a company by adding up the book value of all its fixed assets. Today, over 90% of a company's value is in its intellectual assets! Look at Google, Microsoft, Nike, Berkshire Hathaway or Ebay. They are worth billions of dollars and generate hundreds of millions of dollars a year and yet they hardly own much physical assets. If you were to add up the total value of their factories, bank account, inventories and office equipment, it would make up less than 5% of what the company is worth. In fact, Nike doesn't even own many factories. The wealth of these companies lie in the ideas of the people working there.

The same thing goes for you! Over 90% of your wealth is not what you have in your wallet or in the bank, it is the ideas that you have in your head! In the information age of today, one great idea can be worth a billion dollars. That was how a kid in blue jeans with no money, working out of his adopted parent's garage could become a multi-millionaire at age 25 (Steve Jobs, CEO of Apple Computers).

That's also how a 35-year old Indian national who arrived in a foreign land (Singapore) without a single dollar in his pocket and nothing but a job offer from a prospective employer, could build a global company with an annual revenue of $3.4 billion with 800 staff in 31 countries all within just five years (Vikas Goel, CEO of eSys Technologies).

Latest brain research has shown us that all of us have basically the same neurology and that all of us share the same phenomenal brain potential. In fact, the average person uses less than one percent of their potential intelligence in their entire lifetime (if you want to know more about brainpower, read my first book, 'I Am Gifted, So Are You!'). So, as long as you have a functioning brain, you are already born with the greatest money making asset that you will ever need. You have the exact same raw materials available to you as Bill Gates, Warren Buffett, Richard Branson and Donald Trump. All these billionaires started with nothing but their intellectual capital.

So, whatever your passion and purpose, I am going to share with you how to start activating your greatest asset by giving you what I believe is the cutting edge, the most advanced and powerful wealth creation strategies available today. You will learn precisely how to create, control, multiply and manage your wealth.

If You Want to Get a 1000% Return on Your Investment You Must Do this...

However, in order to get the most out of this book, I encourage you to participate fully in all the exercises and activities I have laid out. As you read, circle key concepts, jot down notes and constantly return to them for reference.

When it comes to specific activities, stop reading, grab a pen and follow the instructions that I will give to you. I believe that in jotting down and doing, you will truly integrate the essence of what I am going to share with you.

If you have little or no background in finance and accounting, some of the later chapters on investments may seem a bit intimidating, but don't worry, keep pushing yourself and you will master it in no time.

Finally, I would like to challenge you to complete this book within ten days or less. How? Simply spend at least an hour a day reading two chapters, digesting the material and putting it into action. Statistics have shown that 72% of people who buy a book never complete it and less than 3% ever follow through by applying what they have learnt. What a complete waste of money and time! But I believe you are different. I believe that you are someone who

is fully committed to getting immediate results in your life. So, get pro-active as you read and you will begin to see doors and windows opening for you.

My Journey as a Self-Made Millionaire

So, what qualifies me to be your wealth coach? Who am I to teach you about how to make money? Am I the richest guy in the region? Or even in Singapore? Of course not! But I dare say that I am someone who has created massive wealth within a very short period of time.

At the age of 26, I became one of Singapore's youngest self-made millionaires (despite being in the army for two and a half years). As a result, I was featured in almost every major newspaper and TV channel in the country. (You can view these press reports at www.adam-khoo.com). Today, at the age of 31, I own three businesses with a combined turnover of over $20 million and personally earn over $936,000 a year, half of which come from my investments. And I created all this wealth starting with virtually nothing but the ideas in my head... the same raw material that you too have been blessed with. I did it without a single dollar in inheritance, no bank loans or any external investments.

So How Did I Achieve All This?

I would say that the greatest contributing factor was my very intense desire for success and wealth. It was this passionate desire that drove me to want to learn everything I could about the strategies of the rich. From the age of 15, I was obsessed with reading books on success and wealth from authors like Warren Buffett, Peter Lynch, George Soros, Anthony Robbins, Zig Ziglar and many others. I would model the mindsets and strategies of these people and begin to take and apply every new technique I learnt until I achieved the results I wanted.

So what first inspired me to become wealthy? Why was I thinking about how to become a millionaire while all my friends were thinking about what was the latest show on television? Yes, in a sense I was privileged to be born into a wealthy family where my dad and my uncles were living in million dollar bungalows, driving Mercedes Benzes and earning million dollar incomes.

I saw the immense financial freedom and security they enjoyed and it opened my mind up to the possibilities of what was achievable. In my family, it was not uncommon for someone to make a million dollars a year in personal income and so it installed a belief in me early on in life that it was indeed possible, especially as my dad and his brothers all started with absolutely nothing.

However, the greater privilege I had was that although my dad was wealthy, he intentionally gave me **nothing**... but love, food and educational support. My dad saw how most kids who were born rich and given all the financial benefits eventually ended up spoilt and totally screwed up. So, he followed the motto 'you have to be cruel to be kind' and went the other extreme. Even though we lived in a bungalow and my dad had four country club memberships, I got less pocket money than my schoolmates. While many of my friends had lots of pocket money left over for snacks, marbles and card games, my dad would just give me just enough for a bowl of noodles and a drink. Even when he gave me $2 to buy something worth $1.50, he would ensure that I handed the 50-cent change back to him. Sometimes I felt very deprived and thought my dad was a real scrooge. But it was precisely the way dad brought me up that became a blessing in disguise. It laid the foundation to my true wealth education, which was to be hungry for wealth and success.

My dad believed that if a parent gave his child everything, he would kill the child's hunger for success. He knew that hunger was the key to motivation and the only way to make me hungry was to deprive me. Whenever I asked my dad to buy me something, his predictable reply would be, 'Why should I buy it for you? Buy it yourself!' So early on in my life, I learnt that nobody owed me a living.

At that time, I was addicted to arcade games and had a love for collecting Star Wars toys. And since my dad was certainly not going to give me the money for it, I decided to make my **own** money. I felt that if I had my own money, then I would have the absolute freedom to buy what I wanted, without asking anybody's permission, especially my dad, who would give me a one hour lecture for wasting his money. This was when I first adopted the belief that 'money equals freedom'. This is one of the single most important beliefs that has been the driving force behind my motivation to make money.

It was my best friend's father who gave me my first job. He had a wholesale stationery business and would get my friend and I to sell stationery door to door to other companies during the school holidays. I was only 13-years old at the time. Looking back, it was during those days that I learnt how to overcome shyness and the fear of rejection... two important traits of becoming rich.

Besides selling stationery, I also got a part-time job as a disc jockey for mobile disco companies. That boosted my confidence, as I had to learn how to speak and entertain in front of crowds. During those years, I also developed a great interest in magic. I was a big fan of illusionist David Copperfield and every bit of spare money I earned went to buying magic tricks and practicing until I was an expert at sleight of hand tricks.

I got my first break as a 'magician' when my mum got me to perform at my cousin's kindergarten graduation. That was for free but that gave me the confidence and idea that I could start charging for my magic shows. So I added 'part-time magician' to my repertoire of entertaining skills. I charged $40 for a two-hour show and most of my clients were kindergartens, primary schools and family friends who threw children's parties.

You must be wondering by now how I managed to study and pass my exams while involved in so many money-making activities? Well, when I was in primary school, way before I started all these schemes to make money, I was a typical lazy, unmotivated underachiever who preferred to get into fights than to study. I used to be a rebellious troublemaker who got expelled from school in primary three (aged 9) and did so badly for my Primary School Leaving Examinations (PSLE) at age 12, that I was rejected from all the six secondary schools that I selected. I was eventually posted to a neighborhood school where I ended up failing most of my subjects and being ranked among the bottom of the cohort. In sheer desperation to help me find some aim in life, my parents sent me to a motivational camp for teens when I had just turned 13. (The full story is in my first book, 'I Am Gifted, So Are You, published in 1998).

It was at this camp that I was first exposed to the concept of Neuro-Linguistic Programming (NLP) and Accelerated Learning. I learnt about the power of human potential and how anyone, with the right strategies can achieve any goal they set for themselves.

NLP taught me how to set inspiring goals in my life and more importantly, how to build in myself the confidence and motivation to achieve them.

I learnt that by modeling the mindset and strategies of anyone of excellence, I could produce the same outstanding results within a short period of time. Since one of my new goals was to become a top student, I decided to model learning-to-learn expert Tony Buzan, from whom I learnt powerful accelerated learning techniques like Mind Mapping, Speed Reading, Memory Enhancement and Whole Brain Integration learning. I was also highly inspired by Anthony Robbins, a janitor turned multi-millionaire. It was from reading his first book 'Unlimited Power' that I was first exposed to the life changing concepts of NLP and success conditioning.

Empowered by the prospects of limitless self-growth, I applied everything I learnt. My grades improved tremendously. From a below average student, I eventually graduated as one of the top student in my secondary school Ping Yi, scoring 7As for the Cambridge 'O' Level Examinations and was accepted into Victoria Junior College (the top ranking junior college at the time). I went on to study Business Administration at the National University of Singapore where I was ranked among the top one percent of academic achievers (NUS has been ranked the 18th top college in the world by Times Higher Education Supplement, Britain) and qualified for the Talent Development Program, which was the university's gifted program.

Although I believed in the importance of excelling academically, I knew that scoring 'A's in school had very little to do with achieving success and creating wealth in life. I knew that if I wanted to achieve my dream of becoming a millionaire by the age of 26 (one of my goals), I had to learn the strategies of wealth creation. So from the age of 15, I started to get obsessed with reading books on 'how to make money'.

One of the first books I read which influenced me tremendously was 'Think and Grow Rich' by Napoleon Hill. It was from Hill that I first understood the concept that money could be generated from ideas and not just hard work. I learnt that if a person used his muscles, he would only be worth a few dollars a day. But if he were to use his mind, his wealth would be limitless.

So I asked myself this question, 'How can I make a lot more money with the same amount of time that I (as a secondary school student) now spend working weekends and school holidays?' What service can I provide that would meet a popular need?

Well, it so happened that among my friends it was the 'in' thing to go to discos. Because we were all well below age, we could only get into discos that organized afternoon tea dances on weekdays. No one could get into a disco on a weekend evening. So, I thought to myself, ' Why don't I start a disco for teens and run it on weekends?' The great thing was that I already had the experience from working as a part-time DJ. I calculated that if I could charge each student $8 (the discos were charging $12 at the time) and I had 200 customers, that would be $1,600 a night! I got so excited with my first money-making venture that I swung into action right away.

My Very First Business... Setting Up a Mobile Disco

In the middle of secondary three (at the age of 15), I rounded up a couple of my best friends, all students, to run this first venture. For the venue, one of these friends managed to get the use of a function room at the condominium he was living in. So we had free rental. After looking around, I eventually contracted a mobile disco company that would set up the disco lights, sound systems and spin the songs all for $300 a night. I figured that we would still make a profit of $1,300. I used my IBM compatible computer with a Wordstar program to print out tickets which we went round selling to classmates as well as students from neighboring schools.

The response was phenomenal. On our first run, we had over 300 kids who packed the place and we made $2,100 in one evening while having so much fun. That was when I first learnt that great ideas make great money! Not only that, I think my friends and I had more fun running a disco than if we had been merely attending it. That encouraged us to keep running these disco parties once every two weeks. Within a few months, we were rolling in cash. That's when I started thinking, 'instead of paying the mobile disco company $300 a night, why don't I buy my own equipment and start my own business'?

So with the first $3,500 I made, I went out and bought a second-hand set of turntables, a mixer and an equalizer together with two helicopter spinning lights and a smoke machine and 'Def Beat Productions' was born. My friends were not part of this investment-in-equipment aspect of the business but they helped in marketing and providing the service and were happy with the rewards from that. So, not only did we run discos from then on, but I started to rent out my services to families who were throwing parties and needed a disco party. I spent all my weekends and my holidays running my business while still studying at Ping Yi Secondary School. First-hand experience in this entertainment business was also crucial in teaching me the skills that would later enable me to grow this entertainment enterprise into a full-fledged event management business, 'Event Gurus Pte Ltd'.

My father wasn't exactly happy about his son's disco business, especially as the disco equipment was installed at home in my bedroom and my friends came often. But he couldn't seriously complain as my school grades only got better as, along with my escalating business, I kept setting higher study goals and achieving them.

My Second Business Idea... Adam Khoo & Associates

In fact, doing well academically helped me to create another source of income when I was in junior college doing my 'A' levels. Because I was achieving great results in school, I had the credentials to start giving tuition to other students for $200 each a month. By teaching these students (some of whom were just a few years younger) the study and motivation techniques I had learned, they started to show significant improvement in their school grades. This helped grow my reputation and clientele. However, after reading all these wealth books and learning the power of multiplying the effects of my efforts with ideas, I figured that I couldn't make very much by tutoring one student at a time.

So I started to hire myself out as a freelance motivational trainer who specialized in training students how to succeed in school. I went round to schools in Singapore selling my program. Within a few months, I was consistently conducting classes for a hundred

students each time. With my charge of $20 per student, I was raking in up to $2,000 a day! It blew me away that I was probably making more money than my own teachers in school. I was only 17-years old at the time.

What really got me tons of business was when I decided to compile all my knowledge into a book. This book, 'I Am Gifted, So Are You!' was written while I was in the Army. When it was launched in June of 1998, it topped the best-sellers list in the local bookstores, adding another huge (at the time) income stream to me. As a result of the success of my first book, I co-authored three more books that multiplied my income streams even further. They were 'How to Multiply Your Child's Intelligence', 'Clueless in Starting a Business' and 'Master Your Mind, Design Your Destiny' that was ranked on the Straits Times Best-Sellers List for thirty six weeks.

However, what truly enabled me to accumulate so much money was not so much the income I created, but the lessons I learnt about saving and investing from the stacks of wealth books that I read. I develop the habit of saving far more than what I was earning, even when I was still studying.

Instead of spending my money indulging in fun and frivolous things, I invested almost everything I had into unit trusts and stocks through the investment strategies I had learnt from reading books by wealth gurus like Warren Buffett, Peter Lynch and George Soros. I more than tripled my money in the stock market through investing in both US and Asian stocks. The boom lasted a few years then, just before the dotcom bubble burst in early 2000, I sold everything.

I knew when to sell not from a lucky tip-off, but through studying and understanding the market. It was obvious that the Price-to-Earnings ratios were ridiculously high (you will learn about this in the later chapters), and many technology stocks were grossly overvalued and bound to burst. Sure enough, the market crashed, and that's when I picked everything up again, for a song. By the time I graduated from university,I had two profitable businesses going, a best-selling book and a growing investment account. At the age of 26, I had crossed the one million net worth mark.

I began this book by sharing a brief history of my own journey not to impress you but to impress upon you that if I can do it, so can

you! All it took was intense desire, a mindset of infinite possibilities, the right strategies and consistent action and determination.

Money is A Game... You Must Learn How to Play it

You see... making money is a game. If you learn the rules of this game, money will flow into your hands. If you do not play by the rules, you will struggle all your life financially despite working very hard.

Haven't you ever asked yourself why some people earn five times, ten times or even twenty times more than others? Is it because they are twenty times smarter? Is it because they work twenty times harder? Or are they many times luckier? The answer to all these questions is a resounding 'NO'!

I am sure you know people who seemed to be much lazier than you in school and had poorer grades but now they are so much more successful financially. Although their school report card used to be chockfull of 'F's, their financial report card carries straight 'A's. Why? The **only** reason is because they know how to play the game of money whereas most people have not learnt how the game is played.

You see... none of us are ever taught how to make money, how to invest money or how to manage our wealth and yet money is the most important subject in our adult lives. Although many people say that **'money isn't everything'**, that's only a half-truth. The truth is that **'everything is money'**! In order to achieve excellence in the different areas of lives like our health, relationships and family, we need to be financially secure!

To be financially secure means to be 'Free' – free from being hounded by creditors to pay one's rent or the hospital to pay one's bill. To have sufficient money to feed oneself and one's family, to pay for basic needs and to pamper ourselves with luxuries once in a while. It also means the 'freedom' to walk away from a job, a company, an employer, one cannot stand and have the option to be employed or self-employed doing something one values and finds fulfilling. No one can quarrel with this definition of the need to have enough money.

The traditional education system (thank God it's changing) never taught us how to be rich but instead brainwashed us into becoming poor. We are taught beliefs like 'study hard, get good grades and a good job and you'll be set for life!', 'investing is risky', 'don't act smart', 'don't play with stocks or you'll get burnt', 'don't be so money-faced' or 'don't be so stingy'.

As result of all the wrong anti-wealth advice, most people work hard all their lives, going around in circles in the rat race and ending up broke and unhappy. However, a fortunate few eventually learn that wealth is not made by just getting a good job and working hard. It takes a different way of thinking and a totally different strategy. Those that learn this lesson get out of the rat race and onto the path of financial abundance and freedom.

Some people take ten years to figure this out, some take thirty years and some never figure it out until it is too late. In this book, you will learn what others spend their whole lives trying to figure out.

First… You Must Know Why You Are Not Rich, Yet

Before learning wealth creating strategies, let me first ask you this question, 'Why are you not rich yet?', 'What has prevented you from getting the wealth you deserve?'

Spend some time to really ponder on this question and write down as many reasons as you can think of. It is important that you are totally honest with yourself. Go ahead and do this now.

Reasons Why I Am Not Rich Yet

1. ______
2. ______
3. ______
4. ______
5. ______
6. ______
7. ______
8. ______
9. ______
10. ______

Now, let's see if your reasons are similar to those I've heard over the years when this question was posed to people. Most people tend to say:

'I have no money to make money', 'I was born in a poor family'
'I need to support my family', 'I am too young/old', 'I'm not smart enough',
'I have no opportunities', 'I'm too lazy', 'I lack the qualifications',
'I have an unsupportive spouse', 'I lack the financial know-how',
'I have too many children', 'I have no luck', 'I am afraid of taking risks',
'I lack discipline', 'The economy has been down', 'I made poor decisions'

Do any of the reasons shown here match the ones you have given? Now, I want you to look at all the reasons you have been giving yourself and to take note of whether they are reasons that are within your control or external reasons that you think are beyond your control.

If you feel that they are self-created reasons like 'poor decisions', 'lack of discipline' or 'lack the financial know-how', then put a tick next to it. If they are externally caused reasons like 'no opportunities', 'bad luck' or 'lousy boss', put a cross to it. Now, do you have more ticks or more crosses? Your ability to become rich depends very much on this!

Every time I do this survey with people, I have discovered that people who put down a lot more ticks are generally more successful financially than those who have lots more crosses. Why? Because the reasons you give yourself is a reflection of whether you have the Winner's mindset or the Victim's mindset.

Most people go through life with the Victim's mindset and this prevents them from ever changing their financial situation. When they don't get the results they want, victims tend to give themselves lots of excuses like 'I'm just unlucky', 'I have no experience', 'I'm too old to earn more', 'I'm too young to be rich', 'I have no capital', 'I was born poor' or 'I'm not a creative person'. The reason all these are lousy excuses is because we know that there are many examples of people who have created wealth for themselves, despite all these perceived disadvantages.

Victims also tend to blame everyone except themselves. When you ask victims why they are not rich yet they will say something

like, 'my boss won't give me a raise', 'I don't get any opportunities', 'my big family prevents me from saving money', 'the stock market caused me to lose everything'. And instead of finding a way to improve and change, victims spend their time complaining but not do anything about it.

The trouble is that when you give yourself excuses, blame others and whine, it means that someone else or something else is controlling your life and your (lack of) wealth. Since you believe that it is not your fault, then you are powerless to change it. If you have a victim's mindset and hold doggedly onto the belief that external forces are controlling your wealth, then any strategy you learn will be of no use!

WINNER'S MINDSET	VICTIM'S MINDSET
Take 100% Responsibility & Ownership	Give Excuses Blame Others Complain

In order to fully benefit from the teachings in this book, you must first adopt the winner's mindset. Winners take a hundred percent responsibility for the results in their life. They take ownership over their wealth. When their sales drop, they don't blame their customers or the economy. They know that doing so will be futile since they can't change these external factors. Instead, they take full responsibility for the fact that they did not sell hard enough, did not meet enough prospects or they used ineffective closing strategies. By taking responsibility for your results, you give yourself the power to change it! When winners don't get a pay increase, they don't blame their boss or their company, they take responsibility for the fact that they have not created enough value, not demonstrated their worth or have not asked for it!

The moment you acknowledge that you create your own fortune (or lack of it), it means that you have given yourself the power to start becoming rich right now! When you learn the strategies of wealth creation, you will find that you can make money at any age, with any background, with little or no money and in any economy. To find out how millionaires achieve this, you must first know 'The Seven Steps to Financial Abundance'.

chapter 2

The Seven Steps to Financial Abundance

Is there a formula for wealth creation? Do all self-made millionaires take the same steps to amass their fortunes? If we were to do an in-depth study of how self-made millionaires think and act, would we find some common clues that we can learn from? The answer is yes.

Although one millionaire may have made his money in real estate while another made her money providing children's education, I would bet that all of them share similar wealth creating skills and took certain similar steps that allowed them to build up a large personal fortune. Of course there are individuals who seem to have oodles of money without having any of these wealth creating skills. They are usually people who inherited their money, won the lottery or have a marketable talent like singing. However, time and again it has been proven that if they do not eventually learn the necessary money skills, or have a trustworthy and money savvy manager, they will usually end up losing everything they have. Even famous 60s' Hollywood singer-actress Doris Day lost her fortune when her husband-manager cheated her and ran off with her hard-earned money.

So, let's get started on learning the seven-step formula to financial abundance. These are seven essential steps, each one representing a wealth creating skill that all self-made millionaires possess and practice.

Step 1: Adopt the Million-Dollar Mindset

First, learn and adopt the mindset of a millionaire. Millionaires think very differently and that is why they take different actions and produce vastly different results. Self-made millionaires have a different set of beliefs and habits that allow them to see opportunities where others see problems.

Millionaires see learning experiences, where Mister Ordinary sees failure. The moment you adopt the beliefs and habits of a millionaire, your perception of the world will change completely and you will realize that there are money-making opportunities everywhere and everyday around you.

Amazingly, these are opportunities that you were once quite blind to!

In chapter 3, you will learn the Nine Habits of Self-Made Millionaires and how to program your beliefs in such a way that your subconscious mind will begin to attract wealth to you.

Step 2: Set Clear Financial Goals

Wealth never happens by chance. It always begins with a clear goal in mind. At one point of time in their life, millionaires always make a decision to become rich. However, whenever I ask most people what their financial goals are, I often get a blank stare. When I ask people to write down their target income or how much they want to be worth, the standard answer I get is 'as much as I can get'. This is a major reason why they will never achieve any level of wealth because they have no clue what it is. Unless you have a specific figure to focus on, you will never be able to develop a strategy to achieve it.

If you are earning $4,000 a month and set a target to earn $20,000, it is not just about working five times harder. It is a completely different strategy. Similarly, if you choose to earn $40,000, it is again a totally different strategy! Only when you are specific abut how much wealth you want to create, then you will come up with a practical plan to execute it. No matter where you are now financially, any target is possible as long as you use the right strategy.

In chapter 5, you will learn about the Four Levels of Wealth and how to achieve them. They are financial stability, financial security, financial freedom and financial abundance

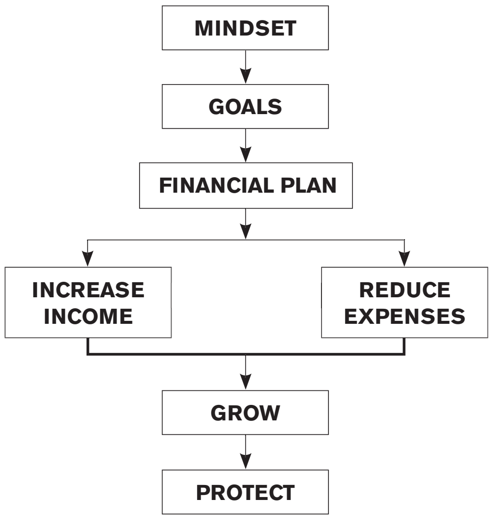
Step 3: Create A Financial Plan

Once you have set specific financial targets of how much you want to earn and how much money you want to accumulate, you can then develop an effective plan to achieve it. Goals by themselves are nothing but pipe dreams. Only when you create a plan, have you made your goal a possibility. The moment you start taking action on your plan, your dream becomes a reality.

For example, if your goal is to accumulate a $1 million portfolio by a certain date, then you must develop a plan as to how much you must save and invest each month, the rate of return you must get from your investments and the estimated time it will take you. If your goal is to triple your income to $15,000 a month, you must have a concrete plan as to how you will increase your primary income stream and the number and type of additional income streams you can add on.

Most people never achieve their financial dreams simply because they have no financial plans and haven't got a clue as to how to create one. They just work hard and hope that everything will be okay one day. You cannot leave your financial future to chance, you have got to plan for it. While there are great financial planners around who can give you some sound advice, you must ultimately take responsibility and develop your own plan! After all, it is your life we are talking about.

In chapters 4 and 5, you will learn how to craft a financial strategy and plan for yourself to reach the four levels of wealth.



Step 4: Massively Increase Your Income

After developing their financial plan, most people tend to become initially disheartened. They look at their plan and realize that with the amount they are earning and saving right now, it will be decades before they see any big money.

It is therefore important that you learn how to accelerate and turbo-charge your financial plan by taking steps to massively increasing your income. When I talk about increasing your income, I am not talking about a 5%, 10% or even 20% increase, I am talking about doubling, tripling or even increasing your income by five to ten times? Is this possible? Yes! And it is definitely achievable without you having to quit your job or risking a lot of capital (your savings) in a business venture.

In chapters 6, 7 & 8, you will learn practical and proven methods that thousands of people use to create multiple streams of income for themselves. And in chapters 9, 10, 11 and 12, you will learn how you can start a lucrative home-based business and reach out to a global marketplace with the power of the Internet. You will learn how students, professionals, retirees and housewives have created a sustainable source of income for themselves.

Step 5: Manage Your Money & Reduce Expenses

Many people think that by increasing their income, their wealth will automatically increase. Unfortunately, increasing income is only one side of the wealth equation. After all, there are people who earn $2,000 a month who are broke and there are those who earn $20,000 who are still broke. The reason is because when we don't manage the money we earn, our expenses will always rise to our level of income, wiping out any surplus we have! Or worse, we start spending on credit lured by easy repayment schemes. Millionaires become rich not because of how much they earn, but rather how much they are able to save and invest.

In chapters 13 and 14, you will learn the essential money skills of how to track every dollar that flows through your hand and how you can amazingly reduce your expenses by 20%-30% without compromising your standard of living.

Step 6: Grow Your Money at Millionaire Returns

By increasing your income and reducing your expenses, you will find that you will be able to accumulate a surplus of funds that you can use to help you build your fortune. You need to do this because, no matter how hard you work and save, you will never be able to create phenomenal wealth unless you learn how to put your money to work for you. Through the power of compounding, you will be able to take small sums of money and build it into huge returns over time.

All self-made millionaires attribute a huge part of their wealth to their investments because they know that just working for money will never make them rich. It is when you allow your money to make you money that substantial wealth can be created.

If you've had the bad experience of losing money in stocks and mutual funds and resigned yourself to believing that the only safe way to invest is to put your money in the bank and get 3% returns, don't worry. The strategies that I will be sharing carry minimal risk. Remember self-made millionaires are shrewd risk takers and this is very different from being gamblers.

In chapters 15 to 19, you will learn never-before revealed investment techniques that can allow you to earn millionaire returns of 15%-25% per year with minimal risk. At this rate, your portfolio will be doubling in value every three to four years!

Step 7: Protect Your Fortune

There is no use working hard to build your personal fortune only to see it all taken away from you. There are many people who have taken decades to build their fortune only to see it wiped out by an accident, unforeseen illness or through an unexpected lawsuit. Self-made millionaires engage professionals like insurance advisors, lawyers and accountants to help them build a financial fortress so their wealth is protected from potential creditors, plaintiffs looking to sue and the government who may take away a big chunk of your wealth through a whole range of taxes that you may not have even heard about.

As it is beyond the scope of this book, I highly recommend that you engage such professionals who will help you use a variety of tools like insurance, trusts, offshore accounts to ensure no one or nothing can touch your wealth once you have built it.

So there you have it, an overview of the seven steps that you must take towards financial abundance. Let's begin to learn each of the steps in depth, starting with...

chapter 3

The Nine Habits of Self-Made Millionaires

In this chapter, we are going to be exploring the million-dollar mindset, the first in the Seven Step Formula to Financial Abundance! Before learning the specific strategies and techniques of how to make and multiply your money, your mind must first be conditioned to wealth!

Remember, millionaires think and see the world very differently! Where most people see problems, those with the millionaire's mindset see money-making opportunities. Where you see failure, the millionaire sees a valuable learning experience that will lead to greater opportunities and wealth.

Unless you have the millionaire's mindset, you will never be able to see the limitless money-making opportunities around you. Without the millionaire's mindset, you will not have the focus, drive and determination to take the massive action necessary to implement the ideas and strategies I am going to share with you.

Wealth must first be created in the mind before it can be manifested into physical reality. You must first be mentally wealthy before you can attract physical wealth. It has been proven time and again that people who have the millionaire's mindset are able to attract and create fabulous wealth, even though they had started with absolutely nothing. Some even had all the odds stacked against them.

Such millionaire-minds, even if they suffer a major failure like bankruptcy or business failure and end up deep in debt, are able to bounce back and what's more make back their losses plus more, within a short space of time.

Take the irrepressible real estate tycoon, Donald Trump (host of 'The Apprentice'). Trump lost his entire fortune when property prices crashed in the early 1990s during a recession and

he ended up US$935 million in debt. Down, but not out, Trump hauled himself up from the pits to triumphantly make a US$3.7 billion fortune, all within ten years! Why didn't such a crushing failure crush him completely? Because wily Trump of 'The Art of the Deal' fame, knew that he may have lost everything physically, but his true wealth did not lie in what he has stashed in his bank, it lay in his mind. It was his way of thinking and his financial intelligence that was worth billions, and that is what continues to make him a genius in negotiating the best deals. Of course he does not always win, but with his multi-million dollar mindset, the comeback is inevitable.

At the same time, there are hundreds of examples of people who had wealth thrust on them – a vast inheritance or a huge lottery windfall. Again, studies tracking the fortunes of such instant millionaires show that they invariably lose everything and then some more, within ten years of their coming into sudden wealth. They would either squander it all, get cheated out of their money or lose it through foolish investment decisions. Why? When you do not have the millionaire's mindset, money will not stay with you for long.

Similarly, when you do not think like a millionaire, you will never attract wealth no matter how smart you are or how hard you work. I know many people who were academic achievers. Many of them work really hard in some great companies and are paid quite handsomely for their efforts. However, these professionals are not truly wealthy and, from the way I see it, they will never be financially free. And it has got nothing to do with their job, it's got to do with their mindset.

So What is The Million-Dollar Mindset?

Well, it is the way we perceive the world. It is the way we frame, filter and make sense of the events and experiences in our life. Although two people may experience the exact same event, they will invariably perceive it and think about it very differently because of their different mindsets. Their different thoughts will result in different actions and different results.

MINDSET ⟶ THOUGHTS ⟶ ACTIONS ⟶ RESULTS

Let me give you an example. Imagine if you had to take an important early morning flight to New York but due to unforeseen circumstances, the flight got cancelled and you are stranded at the airport with a hundred other passengers. There is no other flight out that day. What would you think about? How would you feel? What would you do? Would you (a)Just wait for news of the next flight out? (b)Lodge a complaint with the authorities? (c)Hang around with the other disgruntled passengers and complain? Well, it depends on your mindset. Most people would think of the situation as a 'problem' they can't do anything about. They would feel frustrated and angry and take one of the three above actions. What would someone with a millionaire's mindset do?

Well, this exact same situation happened to billionaire Richard Branson (founder and chairman of the Virgin Group) in 1980. While vacationing on Beef Island (part of the Virgin islands), Richard Branson and his wife were stranded when the local Puerto Rican flight got cancelled. There were no other flights out that day. Instead of seeing it as a 'problem', Branson's millionaire mindset got him to see it as a challenging opportunity. As a result, he took a very different set of actions.

Branson got on the phone to a few aircraft charter companies and managed to charter a private plane for $2,000. Knowing that there were many stranded passengers who needed to catch a flight out badly, he borrowed a blackboard and wrote 'Virgin Airways $39 Single Flight to Puerto Rico'. Within an hour of walking through the airport terminal, with the blackboard in his hand, he had sold every single seat!

After successfully flying everyone back and making a cool profit, he mulled over what one happy passenger had casually said, "Virgin Airways isn't too bad–smarten up the service a little and you could be in business." Up till that moment, Branson, the builder of Virgin Records and a Hot Air Balloon adventurer, hadn't given any thought to getting into the airline industry! But Branson, ever the bold adventurer, lost little time in launching Virgin Airways, taking on the giant British Airways and the rest is aviation history. Today, Virgin Airways is a global budget airline and one of the most profitable in the world.

The amazing thing about Branson was that he did not use any of his money to solve his 'problem'. He used his millionaire mindset and thinking to turn a problem into an opportunity, which not only solved his problem, but made him even more money.

So, if you are not creating tremendous wealth right now, it is because you are not taking the right actions. In other words, if you want to massively change the results in your life, you have to take different actions. To take different actions, you have to think differently. And of course to think differently, you must have a different mindset... the million-dollar mindset.

The million-dollar mindset is made up of your habits, beliefs, values and attitudes.

Now let's get onto learning the 'Nine Habits of Self-Made millionaires'. Follow them strictly and money will flow into your hands, break them and money will forever elude you.

Millionaire Habit 1: Always Exceed Expectations

Before I explain what this first habit means, I want you to list down in the spaces below, **at least** five reasons why becoming rich is important to you. Why do you want to make more money? Is it to provide your children with the best education, to have peace of mind or to have the freedom to travel round the world? Unless you know WHY you want to be rich, you will never have the passion to go for it. Take as much time as you need to list down the reasons.

1. __________
2. __________
3. __________
4. __________
5. __________
6. __________
7. __________

Great! Have you done the exercise? If not, please write down **AT LEAST** five reasons before continuing. You will need these reasons to carry on benefiting from this book. It is EXTREMELY important.

The Value Reducers

Now, let me ask you a question, 'How many reasons did you write down?' Did you write down less than five reasons, exactly five reasons or more than five reasons? Your actions are a direct reflection of your thoughts and actions in life!

I have discovered that people fall into three categories. In the first category are those who have the habit of **doing less than what is expected**. Their patterns are reflected in the fact that they probably write down three or four reasons. When you ask them why, they usually come up with excuses like, 'I could not think of more' or 'I had no time'. Because of this pattern of thinking and action, these people do not add any kind of value to their company or department. In fact, they tend to reduce the value their company creates. These are the people who, when asked to do ABCD, will end up doing just A and B, forgetting or screwing up C & D. Although they are paid say, $2,000 in salary, they only give $1,500 in value. As a result, they are a liability, a burden to the company. There are always a couple of these individuals in every organization. Have you encountered one before?

Now, let me ask you a question. Is this person's salary to be regarded as an 'investment' or as an 'expense' to their company? Of course it is an expense! Will their company give them a raise? Unlikely. By increasing this person's salary, the company's expenses will increase and profits will decrease. Since all companies' primary aim is to increase profits each year, these people will find themselves working for years without getting a raise. In fact, whenever profits drop for whatever reason, management will tend to layoff these people first, to save costs! Obviously, if you operate from this pattern you will never achieve success and wealth!

DO MORE THAN EXPECTED	
Create Value	**Indispensable Asset & High Return Investment to the Company**
DO EXACTLY AS EXPECTED	
Sustain Value	**Dispensable Asset & Low Return Investment to the Company**
DO LESS THAN EXPECTED	
Reduce Value	**Liability & Expense to the Company**

Then there are people who fall into the second category, those who have the habit of doing **exactly as expected**. This group will obediently write down five reasons as the instructions were 'write **at least** five reasons'. They will just do 'the least'. The majority of people in life think and act this way, and that is why they are not rich and wealthy. Be honest with yourself and ask, 'are you currently displaying this pattern? Did you just write down five reasons?

People who do exactly as they are expected sustain the value of their department or company. They are responsible people who get the job done, nothing more and nothing less. They clock in at nine in the morning and knock off exactly at six in the evening. If they are given a sales target of $80,000, they will hit that $80,000 and consider their job done. Now, are they an investment or an expense to their company?

Well, they are what I call a low return investment. By paying them $4,000 a month, they will create $4,000–$4,600 worth of value, so the company gets a 10%–15% return on their investment. Will people who fall into this group get promoted and a pay increase? Of course! Since they are responsible people who get the job done, they will be given more responsibilities as the company expands. As their job scope increases, so does their position and pay.

However, this group will only be promoted up to a certain point. They will eventually hit a ceiling. This ceiling is normally that of a manager. Why? Because they can only take orders and get things done. They lack the attitude to do more! Although they are considered assets, people in this category are dispensable assets. In other words, they are easily replaceable. Because of this, many would get retrenched the moment they reach a certain age. When the company finds that they can hire someone else at half their age and at half their pay to do the same job, they will get displaced. As you know, many middle managers suffer this fate when they reach their mid forties. Again, if you choose to be in this second category, you will never have financial security and freedom.

The Value Creators

Did you write down more than five reasons? If you did, then you belong to the minority of individuals in the third category, the value creators. Value creators end up as the rich and wealthy of our society.

It is not something you are born with, it has got nothing to do with your academic qualifications but it is a habit of choice that anyone can adopt. Value creators have the habit of doing a lot more than expected. If they are paid $3,000, they will work as if they are being paid $20,000. If they are expected to generate $10,000 worth of profits, they will create $30,000 worth of value! They are called value creators because they create value for companies. It is through their efforts, that the company makes more and more profits every year. As a result, their income is not considered an expense to the company, but a great investment.

Even in periods of downturns, when everyone else is getting retrenched and pay cuts, they get pay increases, bonuses and stock options. The company knows that for every dollar they invest in them, they will return triple the value. These people are the high flyers who get promoted super fast and get their incomes doubling and tripling in a few years.

In the past, income was based mainly on seniority and loyalty. The longer you stayed, the more you were valued. In today's world, income is based entirely on the amount of value you can create. It is not uncommon to see people who are much younger, with a lot less experience directing businesses and earning lots more than senior workers who have been with the company a lot longer.

Value creators are indispensable assets to their company! They are very hard to replace. And that is why companies will pay them more and more and offer them partnerships to retain them. Value creators are never out of a good job. They are usually head hunted by other companies all the time, the head hunters offering to double their income if they join them. So, the first unbreakable habit of wealth is to do a lot more than expected. In chapter 6, you will learn specifically about how to create massive value that will lead to massive income!

This habit does not just apply to employees, it applies to anyone from sports stars to business owners. *When Michael Jordan was interviewed and asked how he became the world's greatest basketball player, he replied, "I expect more from myself than anyone would ever expect from me!" When my coach expects me to train three times a week, I would train five times. When my coach expects me to score 15 points for each game, I would score 36 points! That is why I am the best in the world".*

Do Exactly As Expected, And You Will Soon Be Out of Business

As an entrepreneur today, you must do a lot more than expected in order to run a successful business and create wealth! In the past, economies were a lot less competitive. In the past, when a business performed below customer's expectations, they would be struggling to break even. If a business met their customer's expectations, they would make good profits. If a business exceeded their customer's expectations, they would become a market leader and would earn huge profits!

Why do over 90% of businesses fail today? It's because markets have become so much more competitive. If you start a retail store, you are competing with hundreds of others, both locally and internationally! Today, if you perform below customer's expectations, customers will never come back and you will go bust! Today, if you meet customer expectations, you will still be struggling to survive! Why?

This is because hundreds of other businesses can also meet your client's expectations, and some of them do so at half your cost. You will find that you will be competing on price most of the time and will earn so little that it is hardly worth your while. I have seen so many business owners struggling to break even simply because what they offer is the same as every other business in their industry. In today's marketplace, if you exceed your client's expectations, you will only earn nominal profits because many businesses already do their best to add more value to their clients.

So how do you make huge profits and become a millionaire in business today? The answer is that you have to go way beyond your client's expectations. You have to give them an unbelievable experience where they will keep coming back to your business and tell all their friends about you. You must set your standards so high that they will never go to anyone else for that particular product or service. When you highly exceed your client's expectations, you can charge a premium and make huge profits. This has been my secret of success for all my businesses and I want you to learn this same secret right now!

One of my companies, Adam Khoo Learning Technologies Group's (AKLTG) business units is in children's education programs. We run a five-day program for children and teens on study and life skills. Now, the market for such educational courses is extremely competitive. So, with so much competition around what do you think is the usual ploy to get business. Slash prices, offer the lowest, the cheapest for what appears to be the same value? Wrong. My education business does quite the opposite. We charge the highest prices in the market ($1,700 for a 5-day program.) and yet, we run the highest number of classes and our courses are always fully booked, with a perpetual waiting list!

AKLTG have become the market leader for such programs within two years of setting up my business, overtaking competitors that have been around for over ten years. How did we do it? Simple, the secret is in the delivery of our service. Our company gives our clients (both parents and their children or teens), an unmatchable experience, one that far exceeds their expectations. Here is a summary of how AKLTG does a whole lot more than expected and creates tremendous value.

My Competitors

- Present a one-hour preview detailing what is taught in their programs.
- Offer a five-day program focusing primarily on study skills & basic motivation.
- Provide ad-hoc follow up and customer service.

AKLTG's 'I Am Gifted, So Are You!'™ & Superkids™ Programs

- We present a three-hour information-packed free workshop that does not just give a preview of the program but teaches parents and their children a whole range of basic strategies on motivation, parenting and study skills.
- When parents sign up, they get an array of free bonuses that include a free copy of my best-selling book.
- The five-day program we offer doesn't just teach students study skills but touches their hearts as well. We equip them with

powerful skills that teach them how to succeed in life and how to appreciate their family and friends.
- Parents get a two-hour talk on effective parenting techniques, complete with a home follow-up manual.
- Students get unlimited free re-attendance to the program.
- Students get a series of encouragement emails for three months that keeps them focused.
- Students can have unlimited free personal coaching through emails.

As you can see, by giving my customers an unrivaled experience and offering tremendous value, my programs are clearly the best value, even at higher prices! So once again, the first unbreakable wealth habit is to always do a lot more than expected! Exceed expectations and your wealth will multiply massively.

Millionaire Habit 2: Be Proactive

In my live Wealth Academy seminars, I usually do an exercise where I get people to stand up, go to as many people as they can and introduce themselves. From this simple activity, I can tell immediately if they exhibit the second very important wealth habit. I notice that there will always be some people who will go around introducing themselves first and getting to know as many people as they can. These people exhibit the pattern of being proactive. People who are proactive are people who take the initiative to **make things happen**. When there are no opportunities, proactive people are those that go out and find opportunities. If they cannot find any, they will create their own opportunities. When problems get in their way, proactive people will take action to solve their own problems!

On the other hand, there would always be an even larger number of people who will just stand around and wait for others to come and shake their hand. These people exhibit the **reactive** mindset. People with the reactive mindset have the habit of **waiting for things to happen to them**. They tend to act only in reaction to others' actions. As a result, they have a lot less control and choices over results that affect them. When no opportunities present themselves, reactive people just sit and wait for the opportunities to come to them. They are characteristic of people who complain about everything that is happening around them and hope that

something will change. When reactive people face problems, they will just wait for others to come and solve their problem.

Remember the example I gave you earlier about Richard Branson who took the unthinkable action to charter a plane and sell seats on it when he was stranded? That is a clear example of proactive thinking. Again, most people will just be reactive and wait for someone to come and fix their problems.

When the Asian currency crisis hit Singapore in 1997, many companies saw their sales and profits plummet. Many business owners were reactive and just sat tight and prayed for the bad times to pass. Instead, Ron Sim, CEO of Osim International (a company that develops luxury massage chairs) took the proactive action of entering new markets like Hong Kong and Taiwan. As a result, his company profits were not only unaffected by the crisis but they continued to increase. When the Asian economies recovered, over 60% of Osim's business came from outside their home country of Singapore, leading to even higher earnings growth of over 30%!

Another example I can give you is of the owner of an event management company. His name is Chris. When the recession hit, the number of potential projects in the market dropped by 80%! Many event companies which just waited for projects to happen, lost lots of money and eventually folded. Again, it is because owners and managers who were reactive led them. However, Chris had the proactive mindset. He packed his bags and went to countries around the region to find new projects. When he found that there were still not enough projects being offered by clients, he took the next step of creating his own events! 'If there are not enough clients who will hire me to manage their events, I will create my own events'! He went on to create a series of highly successful education and computer exhibitions which account for over 70% of his company's revenues today!

PROACTIVE
They make things happen.
REACTIVE
They wait for things to happen.

By having the proactive mindset, you put yourself in the position of power and choice. You are in command and will take action that leads to wealth and success. However, when you act in a reactive pattern, you will find that your finances will never be within your control.

Millionaire Habit 3: Take 100% Responsibility

As this wealth habit has already been introduced and explained in the earlier chapter, I am just going to just mention it briefly. Wealth habit number three is the habit of taking responsibility for your results and wealth! Unfortunately most people choose to adopt the victim's mindset of giving excuses, blaming and complaining. Remember when you give excuses to yourself (i.e. no time, no luck, no capital, no experience, etc...) or blame others for your lack of wealth, then you are putting others and external events in control of your life! When you are not in control, you do not have the power to change your circumstances.

Instead, millionaires take 100% responsibility for their wealth. They believe that they alone create their wealth through their strategies and actions. As a result, they know that they have the power to change their wealth by changing their strategies and actions. It is only when you live by this habit will you have the power to exponentially multiply your income and wealth.

Millionaire Habit 4: Delayed Gratification

What keeps most people from becoming rich is the habit of wanting instant gratification. Instant gratification is the habit of always wanting to enjoy now and not having the patience to wait for future benefits. As a result, these people **spend** a lot more than they **invest**. By spending on that new car, new widescreen television set or designer watch they get instant gratification. When it comes to investing in books, seminars, stocks or insurance products, they will think twice as they have to wait for future benefits. It is precisely for this reason that whatever money comes into their hands will soon be frittered away and not multiplied.

People who want instant gratification will always look for quick and easy ways of making money rather than building a sustainable

business that adds value to (repeat) customers. They tend to cut corners on quality and deliver shoddy products to save money and boost short term profits. As a result, their profits rarely last and they will soon go out of business.

At the same time, those who desire instant gratification lack the patience to allow their money to grow and compound through investing. When they don't see huge sums of money in a few weeks, they abandon their investments and never get to reap the benefits. They have no patience to wait for the seeds they sow to grow into huge money trees that bear fruit.

You see, there are only two ways you can use your money. You can either spend it or invest it. When you spend $100, you get gratified from whatever you bought but that $100 is gone! You get zero returns. When you invest that $100 in a seminar, books or stock, it will grow into $120, $200, $500 or even $1000, depending on your rate of return.

HABITS OF THE POOR	HABITS OF THE RICH
Instant Gratification Spend > Invest	**Delayed Gratification** Invest > Spend

On the other hand, all millionaires adopt the habit of 'delayed gratification'. They have the patience to wait for greater abundance in the future. Whether in business or in investments, you must have delayed gratification in order to create massive wealth.

People with delayed gratification invest a lot more than they spend. Again, they know that by spending a dollar, they may feel good for an instant, but their future wealth will be destroyed. When it comes to spending money, they are extremely frugal. However when it comes to investing, they do not think twice about writing a check for a few thousands dollars. They know that through patience, that money will multiply into a future fortune.

Millionaires never take shortcuts in business. They look at always giving the best value to their customers, even if it means earning less at present. They know that by building their reputation, it will lead to huge profit streams in the future.

I cannot emphasize this value enough because I feel that it is what has really set me apart from all my peers. It is why I earn many more times than most people my age. You see, when I was in college and university, most of my friends spent their holidays partying and having fun. They experienced instant gratification.

Instead of partying, I would spend all my holidays taking up speaking engagements to hone my presentation skills, reading investment books, analyzing company reports and writing chapters of my first book. I knew that by 'sacrificing' my immediate enjoyment, the rewards in the future would be tremendous! Sure enough by the time I graduated from University I had streams of passive income from my best-selling book and two businesses that I had set up. I was earning more money than many of my lecturers while many of my friends were struggling to get their first job with their first paycheck.

Frankly, I never felt deprived. I had so much passion for what I was doing that indulging in drinking and idle lounge-lizard chatter just seemed like a huge waste of time. Nor did I miss social companionship. I had a steady, supportive girlfriend (now my wife), and a core of close buddies in these businesses we ran (and had so much fun and profit), while still studying. In fact a couple of them are still working with me today.

Let me give you another example. When it comes to spending money, I am extremely hesitant. Once I saw a mobile phone that I really liked. It was priced at $800. I kept staring at that phone over and over again but eventually walked away. I found it just too painful to part with $800 for a phone. My friends thought I was crazy as I was earning over $1,000 an hour at the time, whenever I spoke. But then again, I knew that the moment I spent that $800, it would be gone!

On the other hand, whenever I go to a bookstore, I think nothing of spending $800 buying a whole series of marketing, business and investment books. In fact, I once spent $12,000 attending an NLP (Neuro-Linguistic Programming) training course in the United States, without even thinking twice. Why? Because I know that if I spend that $12,000, the ideas that I get from those books and seminars, when applied, will generate me millions and so they have! But most people do the exact opposite. They think nothing of squandering $3,000 on a ring but think twice before buying a good book for $30! No wonder they are poor! So, develop the habit of delayed gratification – and spend wisely – and you will see your money multiply.

Millionaire Habit 5: Do What You Love

The most common question that people ask me about getting rich is, 'what is the best career or business that will make me the most money?' Should I go into education? Food? Insurance? Network marketing? Heathcare? Options trading? Property? What's the best industry to be in right now?

Well, you will find that in ANY industry, there will be a minority who will be making plenty of money, while the majority will be struggling to survive. You hear stories of insurance agents earning $600,000 to $1 million a year (many of them are my personal friends). Again, this is the minority. The majority will be just making enough to get by. Many people see me in the children's education business making millions and think that it's a lucrative business. Again, what they don't know is that I am in the minority. The majority of businesses in education are struggling to survive. So my answer to that question is that you can become a millionaire in ANY INDUSTRY, only if you are one of the best! If you are not one of the best, you will never become rich in ANY industry.

You CAN become a millionaire in insurance, property, options trading, children's education, pest-control, retail, food or Internet marketing ONLY when you are one of the best. So, how do you become the best in the market? The answer is by being totally, absolutely one hundred percent committed towards your particular career or business. People become the best at what they do only because they eat, sleep, breathe, talk and think their business eighteen hours a day (sometimes, they even dream about it as they sleep). In other words, they are obsessed with doing what they do and are constantly finding ways to do it better. And the only way you can become totally obsessed and committed towards something is when you have a love and passion for it!

All successful individuals have one thing in common. They love what they do. And because they have such an intense passion for their particular career or business, they do not distinguish work from play.

Their work is their play and vice versa. As a result, they spend every single day and every waking hour working (to them it's not work), and that is why they become so good at it that they become market leaders and experts. The reason why I dare say that I am one of the best motivational speakers around and was able to build the leading personal development training company is because I am totally obsessed with what I do. I love writing, developing curriculum and most of all, I love training and empowering people. It gives me such a great feeling to see people change their lives and achieving success with what I have taught them. In fact, as I am writing this book right now, it is 11.24pm on 31st December 2005.

While people are out there partying and celebrating the start of the New Year, I am in my office getting this book finished so it can be published in early 2006. All my friends think I am nuts for being a workaholic who works 19-hours a day and 364 days a year. The only day I stop working is Chinese New Year, which happens once a year. Other than that, I am either training, writing or planning my finances, even when I am officially on vacation. What people don't realize is that to me, this is not work, it's fun! It is because of my obsession and total focus on what I do that has allowed me to overtake all my competitors to become the best in my industry.

Every successful millionaire I know has a love and obsession for what they do. One of my friends, Thomas Fernandez who made his fortune in the pest control business (Pest Busters) has a passion for finding new ways to kill pests. He is constantly obsessed with talking about cockroaches, bees, ants and rats. Another guy I know, Kenny Yap has an intense passion for fish. He thinks and talks about fish all the time. This guy is really mad about fish. In fact, whenever he gives speeches on life and business, he uses fish as a metaphor. He even calls himself 'Kenny the fish' and wears a tie with a fish design. His love for what he does has been the key driving force that has allowed him to build one of the largest ornamental fish companies in the world, Qian Hu Corporation.

Similarly, Tiger Woods is the best golfer in the world because he is obsessed with golf. It is his intense passion for the game that gets him to hit hundreds of balls under the hot sun every single day till he gets it perfect! It is his passion that gets him to continue competing in tournaments despite already having amassed a personal fortune of US$575 million. It is not the money that motivates him.

It has always been the love for the game and the love of competing. Have you ever wondered why Bill Gates, the richest man in the world who is worth US$46 billion still works 18-hour days, every single day? Why doesn't he just sit back and relax on the beach? The reason is because like all millionaires, what drives him is never really the money per se; it is the love of being at the forefront of technology. It was his obsession of 'putting a computer in every home running Microsoft software' that made him the best in the field. Similarly, Donald Trump loves doing deals, Michael Jordan loves basketball and Steven Spielberg loves making movies. If you read all their biographies, you will find that none of them got into their industries because they thought it was lucrative. They got in because it was what they loved to do. They love to do it so much that they would even do it for free. This is why although they never have to work for money ever again, they keep working harder and harder. It is because it was never work in the first place.

> Unless you do what you love to do, you will never become rich
> – Adam Khoo

Many people have the belief that millionaires are people who are just naturally more motivated, disciplined and focused. The truth is that when anyone does something he or she loves, the motivation, focus and discipline always comes naturally. If you find that you lack the motivation and discipline to become successful in what you do, the reason is very obvious. It is not your passion! Think about it. Do you have a natural passion for something? Do you have a hobby? Like playing golf? Looking at beautiful women or men? Computer games? Football? Playing with children? Haven't you noticed that whenever you are doing what you love, the energy never stops? It's like no matter how tired you are, you will always find the energy to do what you love. Well, this is the secret that will lead to your success and wealth! You have to find something you are extremely passionate about and build your career or business around it! When you do, you will find that you will be naturally focused, committed and energized to work at it. When you give your best to whatever you are crazy about, you will become the best!

You see, many people have the mindset that they have to work very hard in life in order to become rich. They have got to force themselves to be disciplined and motivated. They believe that when they eventually make enough money, they can finally do what they love to do and enjoy their lives.

WORK HARD → MAKE ENOUGH MONEY → DO WHAT I LOVE

This is a recipe that is guaranteed to make you struggle in stress and misery all your life. When you do something purely for the money and not because of passion, you will find it very difficult to stay motivated. After a while, you will burn out and give up from the stress and exhaustion.

Instead, you must do what you love to do now! Not only will you begin to enjoy your life and be happy but you will suddenly find the natural energy and motivation that will drive you to give your best and become the best. When this happens, the money will automatically follow.

DO WHAT I LOVE → MAKE MONEY → CONTINUE TO DO WHAT I LOVE

Whenever I teach this in my seminars, people will always have two more questions for me. The first question is, 'How do I know if I am truly passionate about something?' To find the answer, just ask yourself this question, 'If I had all the money in the world, would I still be in this career/business?' If the answer is 'yes', then it is truly your passion. If the answer is 'no', then you are definitely in the wrong industry. In fact, when I had the opportunity to interview the top insurance advisors in Singapore (I specialize in insurance sales training), I found that those who were highly successful, earning over $500,000 a year, had one thing in common. They were not primarily motivated by the money but by the love of helping people.

The second question that people always ask me is, 'just because I love something, can I always make money from it'? 'What if my passion has no market value'? The answer is 'yes'! You can always make a highly lucrative career out of any passion! You only need to learn how to make it marketable and learn how to commercialize it! This is exactly what you will learn to do in the chapters that follow! More specifically, you will learn how to turn your ideas and passion into endless streams of income in chapters 8 and 9!

Whether you have a passion for computer games, gorgeous women/men, knitting, cooking, surfing, trading, people, children, fish or even iguanas.

So start asking yourself…

- 'What do I love to do?' 'What would I do even if I didn't get paid?'
- 'If I had all the money in the world, how would I spend my time?'
- 'Who are people who have made their fortunes around this passion I have?'

I guarantee you that when you start looking for them, you will find no lack of role models you can learn from. Remember, do what you love and you will never work another day in your life!

Millionaire Habit 6: Acting with Integrity

Many people have the perception that the fabulously rich and powerful are dishonest and unethical. And who can blame them after hearing stories of how millionaire executives rip off their shareholders in scandal after scandal on Wall Street? Think about Enron, China Aviation Oil, WorldCom, ACCS, REFCO and the list goes on.

Certainly there are unethical & unscrupulous rich people around (incidentally, their wealth & businesses rarely last), but the truth is that most self-made millionaires share a common habit of personal integrity. Interestingly, in the best-selling book 'The Millionaire Mind', author Thomas Stanley interviewed 733 multi-millionaires and asked them what were the key factors that contributed to their wealth. Ranked number one was 'being honest with people'. Surprised? This factor was ranked way ahead of factors like 'making wise investments', 'working hard' and 'having a competitive spirit'. What is integrity and why is it so important to long term wealth?

Integrity is about being honest with others and adhering to high moral standards. It is also about doing what you say you will do. When you act with integrity, your customers, colleagues and staff will place their trust in you. They know that you mean what you say and that you will not let them down. They know that you will give them the best quality for their money and they know that you will not cheat them.

> It takes twenty years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently
> – Warren E. Buffett, world's second richest man

In a world where so many people are unethical and dishonest, build your reputation on integrity and you will have an endless supply of customers, suppliers, investors and business partners. In the first chapter, I mentioned how Vikas Goel, Founder and CEO of eSys Technologies arrived in Singapore without a dollar, but managed to build a global billion-dollar company in five years. How did he do it? Where did he get the money to get started? Initially he worked at a company called Karma. When the recession hit in the late 1990s, Karma's parent company collapsed. Instead of waiting to be retrenched, Goel took the proactive step (Millionaire Habit 2) of undertaking a management buyout of the Singapore unit. In order to keep the business going, he persuaded his customers to pay him in advance so that he could use the money to buy the products from his suppliers. The only reason his customers agreed was because Goel had built up his reputation as an honest and trustworthy man while dealing with them in the past.

A few months later, he bumped into his old boss at Sim Lim Square. When he told his ex-employer that he was running out of money to sustain the business, Goldkist gave him US$300,000 simply because he knew that Goel was a man who would never run away with his money. This is the power of building a reputation of trust and honesty. That was not all. Goel also happened to meet up with an old friend and ex-customer in Sim Lim Square. When he asked for help, his ex-customer wired US$1 million into his Seagate account so he could buy goods from Seagate.

Over the years, I have had many people who have approached me to do business with them and I have turned most of them down, no matter how great the opportunities to make money seemed to be. As a result, many people have asked me what I look for in a business partner (they know that anyone who works with me will make alot of money). My answer is that 'integrity' is above everything else. So, always act with integrity and you will possess one of the greatest strengths of all.

Millionaire Habit 7: Be 100% Committed

Let me ask you this question, 'Do you **want** to be rich?', 'Of course, that's why I'm reading this book!', you may say. Let me ask you the next question, 'Are you **100% committed** to be rich?'.

You see, there is a very big difference between **wanting** to become a millionaire and being **100% committed** to becoming a millionaire. When you merely want, wish or hope to achieve a goal, it will rarely ever happen. Think about it. Everybody wants to be financially free, but very few ever make it happen.

Studies after studies have shown that people who achieve phenomenal success and wealth did not just want it, they were 100% committed to achieving it. When you are 100% committed to a goal, it is no longer a wish, a hope or a want... it becomes an absolute MUST. You see, when something becomes an absolute MUST to you, it gets you to operate from a totally different frame of mind. When something is a MUST, it will become your number one priority and nothing will ever come in its way until that goal is accomplished. When something is a MUST, you will do **whatever it takes** to get it (within limits of integrity of course)! Even if it means stretching way beyond your comfort zone and investing time, energy or money, you will do whatever it takes.

I believe that when you are willing to do whatever it takes to get something, you will ALWAYS find a way. And if you cannot find a way, you will make a way. For example, when George Lucas (millionaire at 28 and creator of Star Wars) wanted to revolutionize film-making by creating the special effects required for the space battle scenes for Star Wars, the technology did not exist. Everybody told him that what he wanted to do couldn't be done. Instead of

accepting the comfort of reality, his total commitment to making his dream come true was to set up his own company, Industrial Light and Magic (ILM) to create the special effects required for his own movie.

However, when you merely have a weak 'wish' or 'hope' for wealth, you will never attain it. Why? This is because the path to achieving any goal and creating wealth is never easy. It fact, it is extremely challenging and difficult. I can bet you that when you begin on your path to financial freedom, there are going to be huge obstacles and challenges that will get in your way. All the problems that you can possibly think of will come to test your faith and endurance and to stretch you out of your comfort zone. You will find that at certain points of time, you will lack the time, lack the money and lack the energy. You may encounter people discouraging you, friends leaving you and things not going as planned (trust me, I have experienced all this and more).

If it is merely a 'wish' that you have to become rich, chances are that you will eventually give up and find lots of excuses of why it cannot be done. This is because those that merely 'wish' for success are never willing to stretch beyond their comfort zones and do what ever it takes to overcome all their challenges. In addition, when something is merely a 'want', you will find that your mind will be filled by a dozen other 'wants' that will take away your time and attention. After a while, you will find yourself being distracted by other things that come your way. Has this happened to you before?

So, the only way you will ever achieve your goals of becoming rich is to make it a MUST for yourself. I remember that when I was in Secondary school, a group of close friends and I shared our dreams about becoming millionaires and business owners. The only difference was that for many of them, that dream was merely a dream. For me, it was an absolute must! I was so totally obsessed with the idea that during those school lunch breaks I would be designing my company name cards with the title 'Adam Khoo – CEO'.

Sure enough when I approached my friends with the opportunity to set up the disco business venture (earlier mentioned in chapter one), many of them started giving excuses like 'we are too busy', 'our parents will object', 'what if it doesn't work', 'what if we lose money', 'we have something on over the weekends' and so on.

Because their goals were not an absolute must to them, they naturally let all the perceived obstacles and excuses get in their way. Because it was a must for me to make money, I knew that I would find a way to make it happen... and I did.

Let me give you another example. Have you ever had a list of goals to achieve or actions to take, but kept putting them off? I'm sure you have, as it is pretty common to procrastinate. Did you eventually get some of them done? Why? Why is it that you eventually got some things done but not the rest? I would bet that those things that you got done eventually became a must for you! It eventually crossed the deadline and you HAD to get it done. As for the rest, we will usually continue putting it off until it becomes an 'absolute must' one day.

You see, we will never do anything in our life until it becomes an absolute must for us. The trouble is that when something becomes a must, it is often too late. For example, I know a friend who set a goal to quit smoking. He knew that it was doing him harm and he really wanted to. Sure enough, he kept procrastinating year after year. Suddenly, in 2003, he was diagnosed with lung cancer and told that if he didn't stop, he would die in six months. He hasn't touched a cigarette since. You see, when something is a 'must', anything can be achieved. At the same time, when you make financial freedom and security a must for you and not just a wish, you will achieve it. When something is a must, our brain gets us to tap our fullest potential to make it happen.

The trouble is that becoming financially abundant is rarely a must for most people. It is merely a wish. However, it is always a must to survive... and that it why most people merely survive. So once again, to achieve all your financial goals, you have to make it a must for yourself. How do you make something a 'must'? The answer is by putting yourself on the line. When you put yourself in situation where you give yourself no choice BUT to succeed, you very often will.

If you study the life stories of millionaire history makers, many of them came to a point in their lives where they put themselves on the line and staked everything they had. And because they had NO CHOICE but to succeed, they often did it against insurmountable odds.

When Vikas Goel needed to get the funds to start his company eSys Technologies, he walked into the Bank of India to get a bank loan. In order to persuade them that he was sincere and confident, he pledged his entire future family inheritance from India. It was this level of commitment that made it possible for him to overcome all the odds that stood in his way.

The only reason that the movie Star Wars came into existence is because George Lucas was 100% committed to making his dream come true. Many people have the perception that Lucas was just a genius who was fortunate enough to dream up this naturally successful movie. If you read about the history of Star Wars, you would know that up to the day of its release, everyone believed that it would be a major flop, including the actors! During production, anything that could have possibly gone wrong went wrong! At the end of sixteen weeks of filming, everyone had every reason to believe it would fail. The movie had grossly exceeded the initial budget, it had overrun the filming schedule, the special effects unit could not create the desired effects and everyone had the opinion that it was a kiddy movie. As a result, 20th Century Fox studios wanted to pull the plug and gave Lucas three days to finish two weeks of work that was lost.

What made things worse was that Lucas suffered severe chest pains in the middle of all this and was warded for severe stress and exhaustion. Most directors would have given up and cut their losses, knowing that it was impossible to achieve it all in three days. If Star Wars had been a 'wish', it would have failed there and then. But to Lucas, it was a must... he would do everything to make it happen. Lucas hired a triple crew, divided the stage into three sets and directed three scenes concurrently. Three days later, Star Wars was delivered and the rest is history. By the end of its first theatrical run, **Star Wars** became the most successful film in North American history. It grossed a total of US$290 million and George Lucas' cut from the box office was more than US$50 million. As a teenager, Lucas set a goal of becoming a millionaire at the age of thirty. He was off by two years: Lucas made his millions by the age of twenty-eight.

When it came time to making the sequels 'Empire Strikes Back' and 'Return of the Jedi', Lucas rejected the money offered by Fox studios. He was so committed to making the sequels an even bigger success (which is very rare in the film industry), that he took what he earned from his first film and fully financed Empire Strikes Back for $18 million (millionaire habit 4: delayed gratification). Everyone thought he was crazy as the number one rule as a moviemaker in Hollywood is to 'never use your own money, even if it is your own film'. His belief and commitment paid off. The next five Star Wars films generated revenues of over US$20 billion and today, George Lucas has amassed a personal fortune of close to US$3 billion.

However, you don't necessarily have to risk all your money like Vikas Goel or George Lucas to get totally committed to your goal. There are other ways of putting yourself on the line. As for me, I personally put myself on the line by making public commitments. Whenever I set a goal, I would announce to everyone my plans because I know that the moment I do so, there would be no turning back. I had to make it happen! So before moving on to the next millionaire habit, I want you to make a decision to be 100% committed to your wealth. Do whatever it takes to finish this book and apply what you learn, and I will guarantee that your wealth will multiply many-fold.

Millionaire Habit 8: The Ability to Turn Failure into Success

The final millionaire habit is the ability to accept failure and to turn it into success. Most people have the impression that successful people never fail and that millionaires never lose money. As a result, many people fear failure and shun those who have flopped. This is a huge lie and distortion that prevents people from becoming rich.

The truth is that everybody fails at one point or another. In fact, millionaires fail more times than anybody else because they take so much more action. I have made countless stupid mistakes, lost a lot of money and have failed so often that I have lost count. So mark my words, you will fail many times before you ever succeed. What's important is what you do about failure. This is the critical habit that makes the difference between the rich and the poor.

There are three ways people respond to failure. The first group of people get so disappointed by their failure that they just give up! They would say, 'I tried it but I failed' or 'I tried investing but it didn't

work for me'. They see failure as the end of the game, as the final verdict that they are not meant to succeed. They give themselves reasons like 'Maybe I am not good enough' or 'it's just too difficult'. Have you ever been guilty of doing this before? Sure enough, this way of responding to failure will see many dreams fade away.

The second group does not give up that easily. When they don't reach their outcome, they would say, 'Let me try again. Let's not give up'. So they quickly get on their feet and try again. If their business fails, they go start another business. If they lose money investing in the stock market, they will go and try to buy different stocks. Will they eventually succeed? The answer is 'No'. Why? It is because this group may try and try again but they don't change their strategy. They keep making the same mistakes, doing the same thing again and again. Sure enough they keep getting the same disappointing results. So what happens after a while? They eventually get so frustrated and tired that they too will throw in the towel. Some may even begin to accept mediocrity and fear to dream of anything better. Do you know anyone who has been caught in this trap? Have you ever done it yourself?

> Success is the result of good judgment. Good judgment is the result of experience. Experience is the result of bad judgment – Anthony Robbins

Millionaires approach and perceive failure very differently. When they don't reach their goals, millionaires do not see themselves as having failed. Rather, they see themselves as getting a learning experience! To them, failure is not the end, but only a detour. They see it as feedback that they are not using the right strategy. They then take this feedback, learn from the experience and change their strategy! If changing their strategy still does not get them the result, they will once again get more feedback, change their strategy and take action again. They keep doing this again and again until they get the results they want! They will do whatever it takes UNTIL they succeed. By doing so, they turn their failures into success!

> My policy is to learn from the past, focus on the present, and dream about the future. I'm a firm believer in learning from adversity. Often the worst of times can turn to your advantage, my life is a study of that
> – Donald Trump, after turning around his $935 million debt into a $3.7 billion fortune

Very seldom do millionaires achieve their success on the first go. Many achieve their financial dreams only after countless learning experiences and setbacks. However, many agree that if not for those 'learning experiences', they would never have found the solutions to their outcomes. Sim Wong Hoo, the founder of Creative Technologies did not succeed until numerous business failures. His first idea was to develop and sell the Cubic CT, the world's first multimedia PC. After spending countless hours and hundreds of thousands of investment dollars on the product, it turned out to be a dismal failure. Instead of beating himself up and finding lots of excuses, he saw it as feedback that the market was just not ready for the product. It was just too expensive and complicated for its time. What did he do? He went back and changed his strategy. Eventually, after even more failures, he eventually came up with the idea of a low cost sound card called the 'Sound Blaster'. And that one idea turned Creative Technologies into a billion dollar global company. You see, all you need is only ONE great idea that will make you your fortune. However, that ONE great idea hardly ever comes the first time around. It only comes after lots of bad ideas.

Another great example that never fails to inspire me about turning crushing failure into resounding success is the story of Steve Jobs, the founder and current CEO of Apple Computers. Steve co-founded Apple at the age of 21 in 1976. Within four years, the company was listed on the stock exchange and Steve was worth US$217 million at the age of 25.

As Apple continued its phenomenal growth, it was decided that professional management had to be hired to run the huge organization. So in 1983, Steve hired John Scully to be the CEO. However, within two years, the CEO and directors at Apple could

not get along with Steve Jobs (he was known to be an erratic and emotional manager) and stripped him of all his duties, forcing him to resign from the very company he founded in failure and disgrace. To make things worse, Apple sued Steve for neglecting his duties.

While those in the business world wrote him off, Steve who possessed the millionaire mindset, took it as a huge learning experience (millionaire habit 8) and took the proactive action (millionaire habit 2) of starting a new and better company called NeXT computers. He believed that he could develop a range of hardware and software that would be even better than that at Apple. Did he succeed? Unfortunately, NeXT's hardware division became a huge failure. Undaunted, he again took the feedback and went on to found Pixar Animation Studios, which became a huge success in creating the first breakthrough fully digitally animated movie 'Toy Story'.

In the meantime, Apple Computer was on the verge of bankruptcy in 1995 after suffering from internal mismanagement and lack of new product innovation. The company was making losses of $800 million to $1 billion a year and its share price dropped from a high of $18 to $3.80. Believing that he could save Apple, Steve Jobs agreed to return as CEO for a nominal pay of $1 (he was doing it purely for the passion... millionaire habit 5). When Steve took over, he fired all the unproductive executives and spearheaded the launch of revolutionary products like the iMac, iPod and iTunes. The revolutionary operating system (OS) he developed at NeXT was then evolved into the highly popular Mac OS X. As a result of these successful products, Apple turned its $1 billion loss into $1.3 billion in profits by 2005. Its share price rose from $3.80 to a high of $75! Looking back, Steve realized that if he never got fired from Apple, he would never have founded NeXT and Pixar Animation. If not for Pixar, he would not have become a pioneer in digital animation and if not for NeXT software he developed, Apple would never have the Mac OS X operating system that has made Apple a huge success today. It is for this reason that many millionaires believe that 'everything happens for a reason' and that 'adversity is often opportunity in disguise' provided you learn from your experiences and continue to take consistent action!

Millionaire Habit 9: Respect & Love Money

The final and one of the most important wealth habits is to respect and love money. I don't mean loving money to the extent that you are a slave to it, but loving money for the good it can do for you and the people around you.

Most people I share this with often respond by saying, 'Well, of course I love money! Of course I respect money.' Who doesn't? If I didn't love money for what it can do, I wouldn't be reading this book.

Well there are many people who consciously desire to be rich and know that money is important. However, at a deeper level they may not realize that their subconscious mind either holds many limiting beliefs about money or associate lots of negative feelings towards money. These negative associations cause them to repel money and prevent them from becoming rich without even realizing it.

Do you feel that although you consciously desire to be rich, but something holds you back? Have you experienced working hard to achieve your goals. However the moment you start getting results and seeing your wealth increase, you tend to go into the pattern of sabotaging it? Like the moment your bank account hits a certain amount, you start losing your motivation until the money dips below a certain level then you start working hard again? It's like your subconscious mind is preventing you from going beyond a certain level of wealth. I know of some friends who say that the moment they get a certain amount of money, they will tend to spend it away or lose it. If you are experiencing the same phenomenon, it is because subconsciously, your mind doesn't want you to be rich. Again, its either because you have a lot of negative associations towards money or many limiting beliefs are holding you back.

I remember a time when I gave a seminar to a group of teenagers and I was teaching them about the power of spotting opportunities and taking action on them. I took out a $10 bill and said that I was selling it for $2. I waved the bill in my hand for a good 10 minutes asking if there were any takers, but none came up. Eventually, one boy hesitantly came up and took the money. 'Buying this $10 note for $2 represents a great profit opportunity, so why didn't any of you come up?' I asked. The answers I got were: 'I didn't want people

to think I was money-faced', 'I did not want to cheat you of your money', 'I thought it must be a trick'. In other words, what prevented them from taking action on any opportunity were the limiting beliefs and associations they had formed about money. The scary thing is that the same thing happens in life! Why is it that some people see and act on money making opportunities everyday while others just don't see them? Again, it is because of the beliefs that have been formed in their subconscious mind.

As many of us grow up, we may unknowingly pick up many limiting beliefs and painful associations towards money from our family members, friends, teachers and relatives. Many people are taught that if they think about money or desire money, then they are being 'money faced' or 'money minded'. As a result, their subconscious starts associating thoughts and desire for money as being bad or evil. This explains why those teens did not dare show that they are a 'money minded' person by taking advantage of the opportunity. Have you been taught to believe this as well? Because many people who come from working class families see their parents working so hard for money, they subconsciously believe that working hard is the only way to make money. This belief causes them to fail to realize that big money is from ideas and not just hard work. When they see $10 being offered for $2 they think that it must be some sort of trick or that they will be cheating me. What they don't realize is that there are opportunities like this everyday! Warren Buffett made his billions by buying companies at half of what they were really worth. He was buying $10 stocks for $2 (you will learn exactly how to do this in chapters 18 and 19). Entrepreneurs make money by buying something a lot cheaper than what it is worth, re-packaging it and sell it for ten times the price!

If you come from a poor or middle class family, there is a good chance that you may have been taught that 'money isn't everything', 'money doesn't grow on trees', 'rich people are greedy', 'money is not important', 'if you have a lot of money then people will cheat you', 'investing is risky', 'money will change you'. As a result, your subconscious mind associates so much fear, hate and negative feelings towards money that it will stop you from ever becoming rich. You may feel this inner power struggle inside you such that although you set your goals to become rich, but somehow, you sabotage your own success every time you achieve a certain level of wealth. Your inner mind won't allow you to become rich as it would give you more 'problems' or make you into a 'bad person'. However, you have to understand that your friends, parents or teachers may have taught you all these things because they probably thought they were passing on good advice. Their parents and teachers probably taught it to them as well, and that is why they have never become rich. Very often, they also choose to believe all these negative things about money because it helps them to justify their own lack of money. When someone says, 'well... money isn't all that important anyway', they are just consoling themselves. When someone says, 'I love my family and that's why I have no time to make money', they are just giving themselves justifications.

So, it is really important for you to stop for a while and really reflect about the inner feelings you have towards money. I know that consciously you respect and love money for what it can do, but I want you to set aside your pre-judgments and really think about the subconscious beliefs and feelings that you associate with money. I once had a participant, Joshua who couldn't understand why despite working hard, having a strong education and learning the strategies of wealth creation, just couldn't seem to hold on to his money for long. Every time he closes a few big deals (he was a property agent) and made a nice pile of cash, he would sabotage his success by spending it all away. He just couldn't understand why. When I got him to relax and think back into the past, he was shocked to find the answer. Apparently when he was a young child, he saw his neighbor's family constantly fighting and arguing. The adults were perpetually miserable and constantly neglected their only child. When Joshua asked his parents why the neighbors had so much problems, he remembered his parents reply, 'these rich people have got more problems... they always argue about money'. Because of that belief that 'money gives you problems' and the painful feelings he associated with wealth, Joshua kept repelling wealth without him realizing it. The moment he started identifying the problem and resolving it, his ability to hold onto and multiply his money began to change dramatically.

So, I want you to grab a pen and spend a full, uninterrupted ten minutes to do this exercise. The moment you start, I want you to

write down as many answers to the following statements: 'Money is... ', 'Having money will... ' and 'rich people are... '. I want you to write down at least forty (that's right... forty!) associations. It is important that you don't stop to ponder or think about what you are writing. Just write whatever comes into your mind. If you think too much or too long about it, you are going to come up with a lot of useless politically correct answers. What you should be interested in are your hidden subconscious associations! The only way to get them out is to keep pushing yourself to write non-stop. Even when you feel like you are stuck and there is nothing left to write, squeeze something out, be it positive or negative. I bet you will be surprised with what you come up with. So are you ready? Stop reading now and start writing! (Remember, don't stop until you hit at least 40 associations).

Money is...

Having Money Will...

Rich People are...

Other Beliefs/Associations about Money...

Give yourself a pat on the back for completing the exercise. I know it wasn't easy. So, what have you uncovered from penning down all your thoughts?

What beliefs or associations do you have about money? Are they positive or negative? Good or bad? What beliefs do you have about rich people? Do you respect them or resent them? Do you admire them or loathe them? If you resent rich people and think that they are bad, then your unconscious mind will NEVER allow you to become rich. Why? This is because if you become rich, then you will become a 'bad person'.

Common Negative Beliefs & Associations About Money

After conducting this exercise with thousands of people in different countries, I have found the following common negative associations consistently being revealed. Do you share any of them?

- Money is the 'root of all evil'
- Money will make you materialistic
- Money will make you less spiritual
- If I became wealthy, I will lose all my friends
- Money doesn't grow on trees
- Rich people are greedy and selfish
- Rich people are stingy
- To get rich, you must be lucky, dishonest or really smart
- Money will not buy you happiness
- Money isn't that important anyway
- To have more money, I will be depriving others of it
- If God wanted us to have money, he would give it to us

- We don't have a lot of money because we love our children
- Having a lot of money will change you (into a bad person)
- If I had a lot of money, my friends and family will look at me differently
- If I have more money, I will have more worries and problems
- There are less opportunities to make money nowadays

Debunking the Myths of Money

The truth is that many of these beliefs and attitudes that some people hold onto with much conviction are nothing but inaccurate generalizations and excuses that keep them from living a truly a happy and wealthy life. In order to truly align your mind to wealth creation, you must debunk these negative myths and really look at the facts...

Myth	**Having a lot of money will change you (into a bad person)**
Fact	Money is a personality magnifier. It brings out the true person within you. If you are a selfish and nasty person by nature, having money will make you even more nasty and selfish. However, if you are a kind, generous and loving person deep down inside, money will magnify your goodness.
Myth	**Money will not buy you happiness**
Fact	True. However, not having money will not make you happier as well. Isn't it better to be unhappy with money than unhappy without it?
Myth	**Money isn't everything**
Fact	This is the top excuse given by poor people who are in denial. The truth is that everything is money. Without money, you cannot maximize other important values such as family, career, health, spirituality and relationships.
Myth	**Money will make you less spiritual**
Fact	Again, if you are by nature a spiritual person, having money will allow you to touch more lives and help you do more of god's work. In fact, the wealthiest people in the world are extremely spiritual. Not having to worry about money anymore allows many of the rich to focus on the more important things in life. Many truly wealthy people believe they don't own their money. They are just custodians of God's wealth.

Myth	**Rich people are materialistic. They worship money**
Fact	It is the people who lack money who worship it. Who works all day, year after year in a job which they hate, just for the money? Who is wishing they had more money? Who is constantly worrying about money? Who are those who constantly sacrifice their health and family to make more money? It is those who are wealthy or those who have no money? I rest my case. In fact, the rich rarely work because of money. They work because of passion and a sense of personal mission. Bill Gates, Warren Buffett, George Lucas, Michael Jordan and Steve Jobs certainly don't work for money... they don't need to.
Myth	**If I became wealthy, I will lose all my friends**
Fact	If you lose some of your friends, it only means that you have found out who your false friends are. When you become wealthy, you will make new friends with a wealthy mindset.
Myth	**To have more money, I will be depriving others of it. There is not enough money for everyone to be rich**
Fact	When you become rich, you actually create more wealth for other people. Wealth multiplies into more wealth. You see, money is a measure of the exchange of value. When you make more money, it means you are creating more value and wealth in the world. Bill Gates is the richest man in the world because he has created the most value in people's lives through the creation of Microsoft and Windows. Because of his invention, so many more millionaires have been created as a result. Think about it, if Microsoft Windows, Word and Excel did not exist, would you have been able to create as much wealth as you have today?
Myth	**Having a lot of money will give me a lot of worries and problems**
Fact	The majority of the problems people face in life (relationships, health, career) are the result of the LACK of money.
Myth	**Money is the 'root of all evil'**
Fact	The lack of money is the root of all evil. The number one cause of murder, cheating, stealing, lying is poverty (the lack of money).

Instead, I want you to write down as many positive associations and new empowering beliefs as you can about money.

My New Money Beliefs

Money is…

Having Money Will…

Stick these new beliefs next to your workstation or paste them on your computer's desktop and repeat them daily. When your subconscious begins to get flooded with all these new positive feelings about money, you will find yourself becoming a money magnet! With the conclusion of this chapter, let's move on to explore…

CASH FLOW STRATEGIES OF THE RICH

section II

chapter

4

How the Rich Manage Cash Flow

The Biggest Lie Ever Told About Wealth

Why is it that 90% of the population find it so difficult to become rich? It is because all of us have been told the greatest lie of all, the lie that has been keeping us from becoming rich. Before you can ever become wealthy, you must first discover the truth about wealth and remove the wool that has been pulled over your eyes for way too long.

Let me start off by asking you to do a simple exercise. I would like you to close your eyes and picture a millionaire in your mind. Picture the clothes the person is wearing, the car he drives, how he spends his money, how he spends his day and how he dines. Go ahead and do this NOW before you go onto the next paragraph.

Well, what picture came into your mind?

If you are like most people, you would have pictured a millionaire as someone who wears the latest, branded clothes, who drives the newest luxury car model, who spends lavishly, who dines in fine restaurants and spends on the priciest, choicest dishes and most superb wines.

You may have imagined someone who is relaxing in a cushy leather upholstered armchair in his mansion or yacht, puffing on his Havana cigar. Why is this so? It's because of the way we have been brainwashed by television and movies to think this is the way millionaires live and spend their money. It is precisely these beliefs and habits that actually keep us from becoming wealthy!

The truth is that very few self-made millionaires live this way. In fact, the only ones who do live this indolent, self-indulgent lifestyle are the minority of millionaires who either inherited all their wealth or who made their money through sports or entertainment. And all of them usually have one thing in common. They inevitably

end up losing everything within ten years. Their wealth is only temporary. Look at Mike Tyson, Michael Jackson, Bobby Brown and a whole list of other celebrities who made hundreds of millions within their careers. They are either all broke or heavily in debt today.

The Truth About Wealth

In the New York Times Best-Selling book 'The Millionaire Next Door', Thomas J. Stanley interviewed 300 self-made American millionaires to find out how they think, how they earn their money and how they spend their wealth. What he discovered was a shocking revelation that made his book an instant best-seller.

It was discovered that many people who had high paying jobs, drove the latest luxury cars and wore the latest designer clothes and who appeared to be have millions to spend, were usually broke with a low personal net worth. Most of these professionals and senior executives of multi-national companies were what he termed 'Under Accumulators of Wealth (UAW)'.

In contrast, those who were actual millionaires (that is those with a net worth of over US$1 million) lived very frugally and well below their means. Eighty-percent of them were born poor or from middle class families. They wore inexpensive suits and never bought a watch that cost more than S$500. Most of them drove secondhand cars, never bought the latest models of vehicles and they usually invested a minimum of 20% of their income in the stock market or private businesses. He termed these people 'Prodigious Accumulators of Wealth (PAW)'.

I must admit that when I was much younger, I too had the same distorted beliefs about how real millionaires lived. When I was a kid, I used to admire and envy people who drove the latest Porsche Boxsters and who lived in Penthouses and lived lavish lifestyles. My millionaire Dad (who never bought a brand new car in his life until he turned 50), used to tell me that these people were in reality quite broke and it was really the bank who owned their houses and their fleet of cars. He said that they were one paycheck away from going broke. I never really understood what he meant until much later on in my life.

The True Definition of Wealth

Before you can be truly wealthy, you must first know what wealth really means. Again, many people think that a person's wealth is defined by how much he earns, by the clothes he wears, by the house he lives in and by the way he lives. We now know that this is not at all true.

A person's wealth is actually defined by how long a period of time he/she can sustain their lifestyle if they stop working. The longer you can go on living your life without working another day, the richer you actually are. Your wealth is therefore defined by three things: (1)your monthly expenses, (2)your liquid assets and (3)your passive income.

Your liquid assets refer to how much cash or cash equivalents (like stocks, bonds & fixed deposits) you have to pay for your monthly expenses. Your passive income refers to income that you will continue to receive even after you stop working. This could include interest, dividends, royalties and profits from a business.

Let's look at an example. Steve is a director in a multi-national company and earns a $20,000 monthly salary. He lives a lavish lifestyle that results in personal and household expenses a month of $18,000. He hasn't really saved much over the years as he has spent any surplus upgrading his house and car. His liquid assets are just under $18,000. Besides his full time job, he has no other sources of income. What is Steve's level of wealth? Well, if he stops working today, his $18,000 will last him for just a month. So his wealth is one month's salary. As you can see, wealth is defined not by the absolute amount of dollars, but by time.

On the other hand, Susan, a marketing manager in a retail store earns a monthly salary of $5,000 a month but she is much wealthier than Steve. How is this so? Well, over the last 20 years, Susan has diligently saved 20% of her income and invested it in the right stocks and mutual funds that have given her returns of 15% per year. (You are going to learn how to achieve this return with minimal risk in the later chapters).

Over the years, Susan's liquid assets have grown to $1.32 million (you can verify this with a financial calculator). In addition, she has spent her free time building up a home-based business

that sells unique collectibles over the Internet. Her small business earns her an additional income of $1300 a month. She may not drive a fancy car or wear a Cartier watch, but let's see what her wealth is.

If Susan were to stop working today, she would still retain the $1,300 monthly passive income that her home-based business earns her. Since her monthly expenses total $4,000 a month (80% of her income), she would have a net outflow of $2,700 a month. With her $1.32 million in accumulated savings, she would be able to survive for 40 years! (This is assuming that she does not invest the $1.32 million she has prudently saved up!).

If Susan were to put her $1.32 million into a risk-free fixed deposit account earning interest of 4%, it would bring her an additional interest of $52,800 per annum. This means another source of passive income that rakes in $4,400 a month. So you can see how Susan can very comfortably go on forever without working another day in her life!

Can you now see that your wealth (i.e net worth) is not determined by how much you earn, rather, it is determined by how much you save and wisely invest. Even with just a middle class income, you could become a millionaire if you have enough financial intelligence, discipline and patience.

How Wealthy Are You Now?

Before you can achieve your financial dreams, you must first know where you are right now. So, it is very important that you do a simple calculation to find out your current level of wealth. It may be a painful and even discouraging process to some people, but it is absolutely necessary – if you don't want creditors pounding at your door! So, take five minutes to complete this exercise before moving on.

$$\text{Level of Wealth} = \frac{\text{Liquid Assets (A)}}{\text{Monthly Expenses(B)} - \text{Passive Income(C)}}$$

1. How much in liquid assets do you have?

This refers to how much cash and cash equivalents you have to pay off your monthly expenses. These are assets that you can easily sell off within a month. So it does not include the value of fixed assets like your house, car or jewelry. It also does not include how much you have in your CPF* or 401K**.

My liquid assets are $ ____________ (A)

2. What are your monthly expenses?

How much do you spend a month on average including interest payments on loans?

My monthly expenses are $ ____________ (B)

3. How much passive income do you have?

This refers to sources of income that will continue if you were to stop working. Again, this includes dividends, interest, royalties or business profits.

My Passive income is $ ____________ (C)

4. What is your level of wealth?

$$\text{My wealth is } \frac{\$\,\_\_\_\_\_\_\_\_\ (A)}{\$\,\_\_\_\_\_\_\_\_\ (B) - \$\,\_\_\_\_\_\_\_\_\ (C)}$$

= $ ____________

So, the key to increasing your personal wealth is to reduce your expenses, create sources of passive income and invest your money to massively increase your liquid asset base. How do you do this? First you must understand...

** CPF-Central Provident Fund is a compulsory savings plan for Singapore citizens and permanent residents.*
*** 401K is a type of employer sponsored retirement savings plan for United States citizens.*

How the Rich Manage their Cash Flow

Once again, the key difference that sets people apart in their ability to create wealth is not just how much they earn but more importantly, how they manage the cash that flows through their hands. The rich manage their money very differently from the average Joe. They have a very different set of habits in the areas of saving, investing and cash spending. To become a millionaire, you must learn and adopt the cash flow management habits of the rich.

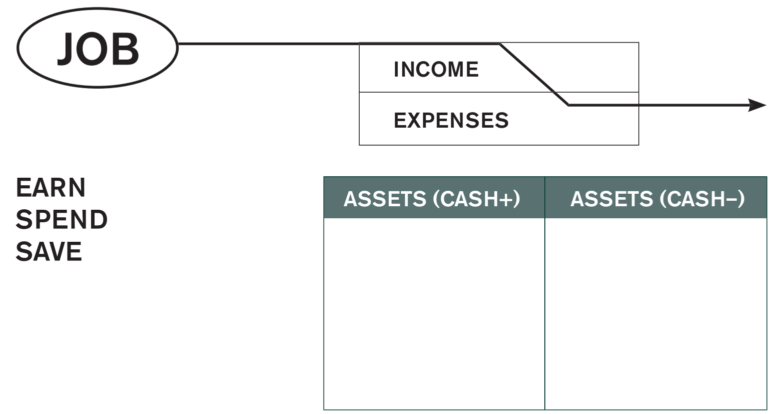
You have to first understand the concept of an 'asset' and the fact that some assets help you accumulate wealth while some other assets reduce your wealth. Assets are physical or intangible items that you own. They can be classified into Positive Cash Flow Assets (Assets Cash+) or Negative Cash Flow Assets (Assets Cash–). Sometimes to purchase an asset like a house or a car, you have to take a loan from the bank. When we borrow money, we incur a liability. As you know, liabilities incur the extra expense of interest payments you must make.

Positive Cash Flow Assets (Assets Cash+) are assets that provide you with positive cash flow and/or capital appreciation even after deducting interest expenses from liabilities incurred. Examples are stocks, bonds, profitable small businesses, properties with positive yield, intellectual property, fixed deposits and so on.

Negative Cash Flow Assets (Assets cash–) are those that depreciate in value and/or incur additional expenses such as maintenance or interest payments for liabilities incurred. For example, if you bought a house and rented it out for $2,000 a month but had to pay a mortgage interest of $2,200, it would be a negative cash flow asset. A house which you buy to live in, or a car which is purchased for personal use will obviously not generate any form of income. They only incur negative cash flow and should be considered as Negative Cash Flow Assets.

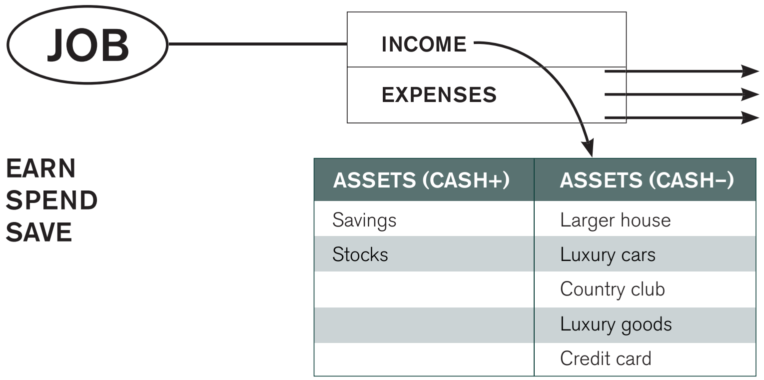
Bearing this in mind, let's see how the poor, middle class and the rich manage their cash. Although the use of income statements and balance sheets have been around for hundreds of years, Robert Kiyosaki (author of Rich Dad, Poor Dad) first illustrated it in way that made it easy for people to understand how cash flow was managed by the different income groups. In my illustration below, I use a slightly different approach.

Cash Flow Management of the Poor



Those with the poor mindset are usually made up of blue-collar workers and junior executives. They tend to spend whatever they earn. They live for the moment without sparing much thought for the future. They are driven by the need for instant gratification. They save little or nothing with the excuse that they earn too little to save. Even if they get a pay raise, they will spend the surplus just as quickly. As a result, they have no financial stability or security. Some continue to work in a job they loathe because they have to keep working to pay the bills. The moment they lose their job or suffer a pay cut, they find it very difficult to survive. It is obvious that this habit of managing cash will never help you get rich.

Cash Flow Management of the Middle Class



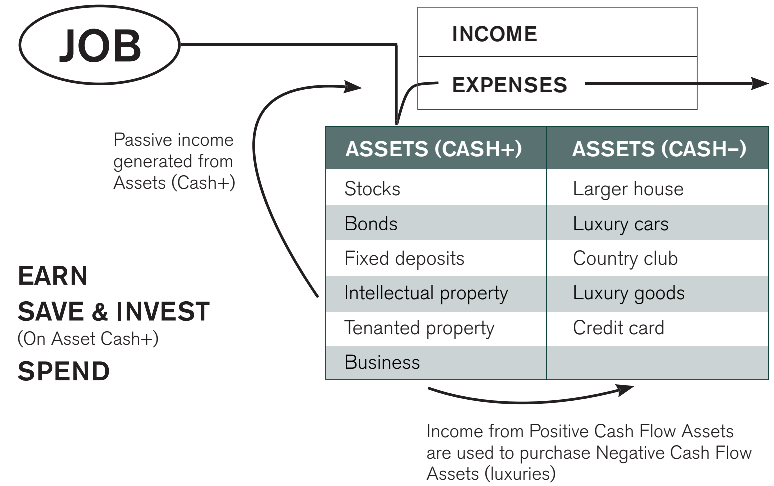
ASSETS (CASH–) far outweigh ASSETS (CASH+)

Those with the middle class mindset are usually made up of professionals, middle and senior executives with larger paychecks. They adopt the very common habit of 'earn, spend and save'. After deducting their monthly expenses from their incomes, they will save the difference. The trouble is that they tend to use these savings to buy a lot more negative cash flow assets as compared to positive cash flow assets. They use their hard earned savings to buy a bigger house and a bigger car which all come with bigger loans, bigger monthly payments and bigger expenses.

They buy the latest home entertainment systems on credit and max out their credit cards. As a result, there is no additional cash inflow but a lot more cash outflow. For this reason, most middle class families appear to be wealthy, but have very low or even negative net worth. Although their houses and cars may be worth millions, they also owe millions, leaving very little equity.

They have in fact, even less financial stability or security. If they lose their jobs or suffer a pay cut, they will end up with huge loans, large monthly expenses and deep in debt. Many of these people suffer high financial pressure, working hard every month for the bank. They cannot afford to quit or lose their jobs and find themselves well and truly caught in the rat race. As a result, they will have to work hard for the rest of their lives, hope they do not become seriously ill and will pay the ultimate price when they find that they can never retire.

Cash Flow Management of the Rich



ASSETS (CASH–) far outweigh ASSETS (CASH+)

So how do the rich manage their money? How do they achieve a level of wealth where they do not have to work if they choose not to? Those with the wealthy mindset adopt a 'earn, save and spend' habit of managing their cash. They set a specific target of how much they want to save every month, usually 15%–20%. They deduct this savings from the income they earn and spend the rest.

Unlike those with the 'middle class mentality', the rich mindset motivates them to take their savings and invest in Positive Cash Flow Assets that will generate returns and appreciate in value. They would rather put their money in carefully selected stocks, mutual funds and businesses than to splurge on the latest LCD Plasma Television. Although they may buy a few luxuries to pamper themselves, their Positive cash flow assets far outweigh their Negative Cash Flow Assets. As a result, the additional passive income generated from their investments outweighs whatever expenses they incur on these 'extras'.

They continue to diligently save and invest until their Positive Cash Flow Assets begin to generate sufficient cash flow to meet and even exceed their monthly expenses. When this is achieved, they are at a level of financial freedom where they can choose to

stop working and sustain their current lifestyle indefinitely. This is the level that you must aim to attain within the next few years. With the strategies and techniques you will learn in the coming chapters, you will find that it is indeed a definite reality within your grasp! So, the secrets of the rich can be summarized as follows...

Spend Less than You Earn. Invest the Savings for COMPOUND GROWTH Until You Accumulate a Portfolio of POSITIVE CASH FLOW ASSETS that Generate Enough Cash Flow to Sustain or Exceed Your DESIRED LIFESTYLE.

An important thing to know is that it doesn't always take money to create Positive Cash Flow Assets. In chapters 8 and 9, you will learn that from the ideas in your head, you can generate powerful cash flow assets that generate multiple streams of passive income with little or no investment. Now that you know what you must do to achieve ultimate wealth, it is time to get into the specifics of how you are going to do it. The next chapter will be focused on helping you developing a specific plan to achieve the four levels of wealth. Let's begin...

chapter 5

The Four Levels of Wealth

Sit up straight. Take a deep breath and get ready to engage your mind. Why? Because this short chapter is loaded with activities and exercises that will get you to understand and craft a powerful personal financial plan that will help you reach your goal of true wealth. It's a destination which, when you get there, you'll have the option, the freedom, of never having to work (for money) for another day of your life!

Some of these exercises may seem tedious and time-consuming. You may even have to dig up a lot of old bank statements, receipts and income tax returns but it is absolutely necessary that you push yourself and commit to completing every exercise here. This chapter is focused on showing you the specific mechanics of how you can eventually reach your goal of financial abundance.

Taking Stock: Where Are You Now?

In the last chapter, I got you to do a rough calculation on your current level of wealth. However, in order to develop an effective financial roadmap, you must first determine your specific financial situation. You must complete what I call your 'Financial Report Card'.

When we were back in school we were all assessed by the number of 'A's that appeared on our school report card. Much emphasis was placed on those 'A's as they were the measure of our success. Similarly, all companies have quarterly and yearly report cards called financial statements that tell the shareholders how successful the company is doing. Well, preparing your 'Financial Report Card' will enable you to find out how successful you are at creating wealth.

Your 'Financial Report Card' is made up of your 'Personal Balance Sheet' and your 'Personal Income Statement'. Let's explore them right now.

Your Personal Balance Sheet

Your Personal Balance Sheet shows your financial strength and stability at a specific point in time. It tells you how much you own (your assets), how much you owe (your liabilities) and how much is left over when you have deducted what you owe from what you own (your net worth). Your net worth is the traditional measure of your wealth. In other words your Assets = Liabilities + Net Worth (Similarly, Net Worth = Assets – Liabilities).

So right now, I want you to spend a couple of minutes to complete your personal balance sheet the table below.

If you have access to a computer, I suggest you key in the figures into a Microsoft Excel spreadsheet (or any other spreadsheet application), so you can do updates easily. You can download a ready-made template from my resource website at www.adam-khoo.com/bizandmoneytips.html and go to the section under 'Free Business and Money-Making Downloads'.

Personal Balance Sheet

Assets		**Liabilities & Net Worth**	
Liquid assets		**Short Term Liabilities**	
Cash	$ ________	Credit card balance	$ ________
Sav/Curr account	$ ________	Unpaid bills	$ ________
Brokerage Account	$ ________	Ready credit	$ ________
Tax owed	$ ________		
Assets (Cash+)			
Fixed deposit	$ ________	**Long Term Liabilities**	
Bonds	$ ________	Housing mortgage	$ ________
*CPF/401(k)	$ ________	Second house mortgage	$ ________
Stocks	$ ________	Car(s) mortgage	$ ________
Mutual funds	$ ________		
Businesses	$ ________		
Intellectual property	$ ________	**Total Liabilities**	$ ________
Insurance cash value	$ ________		

Personal Balance Sheet (Cont'd)

Assets (Cash–)			
Housing Value	$ ________		
Car value	$ ________	**Net Worth** (Total A – Total L)	$ ________
Club membership	$ ________		
Total Assets	$ ________	**Total Liabilities & Net Worth**	$ ________

** CPF is a compulsory savings plan for Singapore citizens and 401 (k) is a type of employer-sponsored retirement savings plan for United States citizens.*

You've completed your Personal Balance Sheet. Good, now you have a true picture of your **current level of wealth**. Although it may feel good owning assets worth $800,000, if you have a jumbo mortgages and loans of $720,000, you are really only worth $80,000. A sobering thought.

Are your assets a lot more than your liabilities or is the reverse true? As you take a look at your Balance Sheet, take note of whether you have more Positive Cash Flow Assets (rich mentality) or a lot more Negative Cash Flow Assets (middle class mentality).

Once you have done up your Balance Sheet, you should update it every six months with the goal of **Increasing your assets** (especially the positive cash flow ones), **Reducing your liabilities** and hence **Increasing your net worth**.

Personal Income Statement

This is the second section of your financial report card. Your personal income statement will tell you how much you are earning (income), how much you are spending (expenses), and how much you have left over to save and invest over a particular period of time (one month, a few months or one year).

First, fill in all your sources of income. Your income is divided into two categories: active and passive. Most people have a single source of active income (usually their salary) and no passive income sources.

Next, fill in all your annual expenses. Your expenses are categorized into personal (include donations here), children, housing and transport. Take your average monthly expenses (this month) and multiply it by 12 months to get an estimation of your total annual income.

Finally, deduct your total expenses from your total income to get your annual savings. Again, if you have a computer, key the data into an excel spreadsheet. Again, you can also download this ready-made template from www.adam-khoo.com/bizandmoneytips.html. Go ahead and do this exercise now.

Personal Income Statement (Annual)

Income			
ACTIVE		**PASSIVE**	
Net Salary	$ ______	Dividends	$ ______
CPF/401K	$ ______	Royalties	$ ______
Commissions	$ ______	Interest income	$ ______
Bonuses	$ ______	Private business profits	$ ______
Directors Fees	$ ______	Net rental Income	$ ______
Total Income	$ ______		
Expenses			
PERSONAL		**HOUSING**	
Dining out	$ ______	Mortgage	$ ______
Clothes	$ ______	Utilities	$ ______
Entertainment	$ ______	Maid	$ ______
Hand phone	$ ______	Groceries	$ ______
Insurance life/medical	$ ______	Property tax	$ ______
Personal taxes	$ ______	House insurance	$ ______
Others (eg. Donations)	$ ______	**Total Housing**	$ ______
Total Personal	$ ______		
CHILDREN		**TRANSPORT**	
Education (school, tuition)	$ ______	Car installment	$ ______
Allowance	$ ______	Petrol	$ ______
Clothes and toys	$ ______	Maintenance/ servicing	$ ______
Total Children	$ ______	Car insurance	$ ______
		Road tax	$ ______
		Season parking	$ ______
		Public transport	$ ______
		Total Transport	**$** ______
Total Expenses	$ ______		
TOTAL SAVINGS (Total Income – Total Expenses) = $ ______			

With your completed annual income statement, you can then begin to plan based on the rate of your current savings. First, how long will it take you to reach your financial goals? At the same time, you can begin to see where you are spending your money and how to control your expenses. Your objective is also to work towards filling up the entire income section so that you will have multiple streams of active and passive income.

Besides an annual statement, you must also create a monthly statement that you can update at the end of each month. A sample is attached for your reference. This monthly template is also included in the free download section from my website.

The Four Levels of Wealth

Now that you know where you are financially, you must know exactly where you want to be. In order to achieve your financial dreams, you must first identify specific levels of wealth that are achievable and attainable. There are basically four levels of wealth you must aim to attain.

Level 1: Financial Stability

The first level of wealth is known as financial stability. This is the most basic level of wealth that you must first attain.

You have achieved Financial Stability when:

1. You have accumulated enough liquid assets to cover your current expenses for a minimum of six months.
2. In addition, you have life and hospitalization insurance to protect you and/or your family's lifestyle should you be permanently disabled, unable to work or if you pass away suddenly.

When you have attained this first level, you will have the peace of mind that should any unexpected challenges befall you (like retrenchment, business failure, pay cut, death or disability), you and your family's lifestyle will not be compromised. Or worse, you or your family will not slide into debt.

Attaining this first level will also ensure that you or your family will have adequate time to look for new sources of income to put

you back on track. At the same time, you will also have the financial stability to quit your job and invest your time to build a business, should you need to.

Once you have achieved this, you must then aim to achieve...

Level 2: Financial Security

You have achieved Financial Security when you have through the investment of time, money and ideas, accumulated a critical amount of Positive Cash Flow Assets that generate enough passive income to cover your MOST BASIC expenses. In other words, when you reach this level, you can stop working and maintain a very basic lifestyle. It also means that if you continue working, all your active income can be channeled towards your investments and this will further compound your assets and increase your income streams.

So, what are your most basic expenses? What necessities must you spend on to live a very simple lifestyle? Well, this is subjective but generally your basic expenses should include no more than the following:

1. House mortgage and related expenses such as utilities and conservancy fees.
2. Public Transportation expense.
3. Food for you and your family (household groceries).
4. All Interest payments for debts owed.
5. All Insurance premiums including life, disability and home.

Of course, we shouldn't be satisfied at being at this level. Once accomplished, you must then aim to go for...

Level 3: Financial Freedom

Many of us have heard of the dream of achieving financial freedom but what does it really mean? Well, Financial Freedom is when you have through the investment of time, money and ideas, accumulated a critical amount of Positive Cash Flow Assets that generate enough passive income to sustain your CURRENT LIFESTYLE.

When you reach this level of Financial Freedom, you can choose to stop working and still maintain your current standard of living... indefinitely! In reality, most people who achieve financial freedom love their work so much that they continue working not because they have to, but because they choose to. I can tell you from personal experience that it is a great feeling to have... being free of financial pressure & worries and working purely out of passion!

Obviously, the more expenses you have now, the more luxurious and indulgent your standard of living, the longer it will take for you to achieve financial freedom. So besides increasing your passive income, reducing your unnecessary/frivolous expenses will accelerate your way towards this fourth level. Finally, you must aim to achieve...

Level 4: Financial Abundance

So what is the ultimate level of wealth you can achieve? Financial Abundance is when you have through the investment of time, money and ideas, accumulated a critical amount of Positive Cash Flow Assets that generate enough passive income to sustain your DESIRED LIFESTYLE.

Your desired lifestyle is the amount of monthly expenses it will take for you to live the life of your dreams. This is totally subjective depending on the lifestyle that you desire. If your desired lifestyle is to live in a 20,000 square-feet bungalow with a swimming pool, send your kids to the best schools and drive a Mercedes Benz S-Class, then you could be looking at a monthly lifestyle that'll cost a cool $50,000. Of course the more luxurious your desired lifestyle, the longer it will take for you to achieve financial abundance.

The moment you reach the level of Financial Abundance, you will be able to choose to stop working and live your dream lifestyle indefinitely. Again, most people who do reach this level usually love what they do so much that they keep on working for fun, channeling 100% of their active income towards charitable causes and further compounding their wealth. With the right strategies and plans in place, you too will be able to achieve this ultimate level of wealth.

How Long Will You Take to Achieve these Four Levels of Wealth? Let's find out now...

How You Can Achieve Financial Stability

Recall: You have achieved Financial Stability when:

1. You have accumulated enough liquid assets (cash & short-term time deposits) to cover your current expenses for a minimum of six months.

2. In addition, you have purchased life & hospitalization insurance to protect you and/or your family's lifestyle should you be permanently disabled and unable to work or if you pass away suddenly.

   To find out how long you will take to achieve this, take the time to complete the next five steps.

   A. My Current Monthly Expenses are $ ___________ per month

   B. My Current Liquid Assets total $ ___________
   (Look at your Income statement)

   C. To achieve Financial Stability, I must achieve total liquid assets of $ ___________
   (Take your monthly expenses & multiply by six months)

   D. I commit to save a total of ___________ a month
   (You should commit to save at least 10%-15% of your net income)

   E. I will take ___________ months to achieve Financial Stability
   To calculate the number of months you will take to achieve financial stability, take **6 x Monthly Expenses (C) – Current Liquid Assets (B)** / **Committed Monthly Savings (D)**

   F. I commit to contact a financial advisor to provide:
   - Life insurance coverage for a sum assured of $ ___________
     My estimated annual premiums will be $ ___________ per year
   - Hospitalization & surgical insurance coverage:
     My estimated premiums will be $ ___________ per year
   - I commit to do this by ___________ (deadline)

** Information on your sum assured and premiums will be provided by a good financial advisor. With the investment knowledge you will acquire from Wealth Academy, you may want to buy the much cheaper alternative of term insurance and invest the difference yourself to maximize long term returns.*

How You Can Achieve Financial Security

Recall: You have achieved Financial Security when you have through the investment of time, money and ideas, accumulated a critical amount of Positive Cash Flow Assets that generate enough passive income to cover your MOST BASIC EXPENSES.

The first thing to do is to calculate your most basic expenses in the table below. You can do this really quickly by referring to your Income Statement earlier.

Calculate Your Basic Expenses (Monthly)

PERSONAL

Dining out (basic)	$ ___________
Life & Hospital insurance	$ ___________
Interest expense	$ ___________

HOUSING

Mortgage	$ ___________
Utilities	$ ___________
Groceries	$ ___________
Property tax	$ ___________

TRANSPORT

Public transport	$ ___________
A. My Total Basic Expenses	**$ ___________ per month**

B. My Total Basic Expenses per year is $ ___________
(Multiply your monthly basic expenses by 12 months).

In other words, in order to achieve FINANCIAL SECURITY, I must accumulate enough positive cash flow assets that generate a passive income of $ ___________ a year (write down your annual basic expenses).

My Personal Strategy to Achieve Financial Security

So, how do you accumulate positive cash flow assets that generate the passive income you need to cover your basic expenses? In the coming chapters, you will learn how to create a whole range of cash generating assets. Some of these assets like stocks, businesses, bonds, fixed deposits and mutual funds require the investment of money to generate a return.

However, you do not always require lots of capital to generate passive income. You will learn that you can build cash generating

cash flow assets like intellectual property and home-based businesses that require ideas and time, but very little capital.

Right now, I want you to fill in your current level of passive income (for most people, this figure is normally a couple of hundred dollars of interest from the bank) and your targeted passive income to achieve financial security.

Current Passive Income	**$** ____________________
Targeted Passive Income	**$** ____________________

Next, you must brainstorm and think of all the positive cash flow assets you must accumulate, the amount of investment needed, the estimated return and the passive income that will be generated. The total passive income generated should cover your basic monthly expenses.

As we have not yet covered the strategies on how to achieve this, you don't have to complete this right now. We shall come back to this page after you have completed the first 19 chapters, and you will be more than ready to develop your plan!

Financial Plan to Achieve Financial Security

+ Cash Flow Asset	Investment	Return %	Passive Income
1.			
2.			
3.			
4.			
5.			
		Total $	
I commit to achieve this target by ____________			

Here is an example, of how you can complete this financial plan.

Financial Plan to Achieve Financial Security

+ Cash Flow Asset	Investment	Return %	Passive Income
1. Home-based business selling art pieces	$2,300	> 100%	$1,500 per month
2. High Yielding Bonds	$50,000	8%	$333.33 per month
3. Write an Ebook on art investment	$0	> 100%	$300 per month
4. Fixed time deposits	$50,000	3%	$125 per month
5. Create a special software that values art pieces and license it to art collectors	$12,000	> 100%	$1,800 per month
			Total $4,058.33

* *Note that although stocks and mutual funds are positive cash flow assets that can give you a return of 13%-25% a year, we do not include them here as the returns are capital appreciation and not cash returns.*

As you can see, different cash flow assets give you different rates of returns and while some require lots of capital, others require mainly the investment of time and ideas. For example, if you were to rely purely on high yielding bonds of 8% return, you will need **$600,000** to generate $48,000 a year ($48,000 ÷ 8%) in passive income (i.e. $4,000 a month). If you were to create a home-based Internet business, a $2,300 investment could through time and hard work, generate you a monthly $4,000 cash flow. Stay tuned on how you can possibly do this in the coming section on 'Creating Multiple Streams of Income Online'.

How You Can Achieve Financial Freedom

Recall: You have achieved Financial Freedom when you have through the investment of time, money and ideas, accumulated a critical amount of Positive Cash Flow Assets that generate enough passive income to sustain your current lifestyle.

The first step is to write down your current annual expenses. Just refer to your completed income statement for this.

My Total Current Expenses per year is $ ____________ .

In other words, in order to achieve FINANCIAL FREEDOM, you must accumulate enough positive cash flow assets that generate a passive income of $ ____________ per year.

My Personal Strategy to Achieve Financial Freedom

Once again, write down the targeted passive income required for you to achieve financial freedom.

Current Passive Income	**$** ______________________
Targeted Passive Income	**$** ______________________

The next step is to think about how to further increase your existing cash flow assets and how to add new ones so that you can hit your new targeted passive income.

Once again, we will return to this section once you have completed the rest of the chapters in this book.

Financial Plan to Achieve Financial Freedom

+ Cash Flow Asset	Investment	Return %	Passive Income
1.			
2.			
3.			
4.			
5.			
6.			
7.			
		Total $	

I commit to achieve this target by ____________________

How You Can Achieve Financial Abundance

Recall: You have achieved Financial Abundance when you have through the investment of time, money and ideas, accumulated a critical amount of Positive Cash Flow Assets that generate enough passive income to sustain your desired lifestyle.

First, you must decide on your desired lifestyle. What is your dream home? Your dream car? Your dream lifestyle? Do you want to travel to exotic far flung places for a total of say twenty days a year? How much would all of this cost to maintain a month? Take a few minutes and estimate the monthly expenses of your desired lifestyle now.

My Desired Lifestyle (Monthly Expenses)

PERSONAL		HOUSING	
Dining out	$ ______	Mortgage	$ ______
Clothes	$ ______	Utilities	$ ______
Entertainment	$ ______	Conservancy charges	$ ______
Hand phone	$ ______	Maid	$ ______
Life & H&S Insurance	$ ______	Groceries	$ ______
Personal taxes	$ ______	Property Taxes/ TV license	$ ______
Others	$ ______	Mortgage insurance	$ ______
Total Personal	$ ______	**Total Housing**	$ ______
CHILDREN		**TRANSPORT**	
School fees	$ ______	Car installments	$ ______
School bus	$ ______	Petrol	$ ______
Insurance	$ ______	Maintenance/servicing	$ ______
Total Children	$ ______	Car insurance	$ ______
		Road tax	$ ______
		Total Transport	$ ______

Total Desired Monthly Expenses = $ ______

Next, calculate your annual desired expenses...

My Total Expenses per year is $ ______
(Multiply your monthly expenses by 12 months).

In other words, in order to achieve FINANCIAL ABUNDANCE, you must accumulate enough positive cash flow assets that generate a passive income of $ ______ per year.

My Personal Strategy to Achieve Financial Abundance

Once again, fill in the targeted passive income necessary to cover your annual desired expenses.

Current Passive Income	**$** ______
Targeted Passive Income	**$** ______

Again, think about how to further increase your existing cash flow assets and how to add new ones so that you can hit your new targeted passive income.

Once again, we will return to this section once you have completed the rest of the chapters in this book.

Financial Plan to Achieve Financial Abundance

+ Cash Flow Asset	Investment	Return %	Passive Income
1.			
2.			
3.			
4.			
5.			
6.			
7.			
		Total $	

I commit to achieve this target by ______

Great! Now that you have a clear idea about the different levels of wealth that you can achieve, let's get started by learning how to accelerate your way there. In short, you will learn how to massively increase your income...

HOW TO MASSIVELY INCREASE YOUR INCOME

section III

chapter 6

Commanding the Highest Price Tag

There is available a veritable treasure chest of strategies to massively increase your income and get you on your way to financial abundance.

When I talk about increasing income, most people think of only two options. Either they work much harder in their job and hope their boss notices their efforts and gives them a raise of 5%–10% or they quit their job and find another company that will pay them 10%–20% more. The trouble is that if you are at a mid to senior salary scale, the chances are that you might have already hit an income plateau and any increments thereafter will be insignificant. And quitting your job is again no guarantee that you will find something better.

When I talk about massively increasing your income, I don't mean a mere appreciation of 5%, 10% or even 20%, I am talking about doubling your income or even increasing it by three to five times, all within 12 months! Is this possible? Yes it is! And you can achieve this without quitting your job.

How? By not just focusing on your single, primary source of income, but taking action to create for yourself additional streams of income. The only way to double or triple your income is to create for yourself multiple streams of income. The rich never depend on one stream, but have multiple streams.

The only way I was able to make my first million by the age of 26 was that I focused on creating as many streams as possible. Today I have over ten streams of income. My first stream of income is the fee I get paid for training and speaking engagements. This is known as an active stream as I have to physically work to earn this money. My other nine streams are known as passive streams as they keep recurring year after year with minimal effort. They include profits from my event business, profits from my education business, profits from my advertising business, royalties from four other books

I have written or co-authored, returns from my stock investments, advertising revenue and profits from my internet businesses and royalties from my audio programs.

Now, will all the income streams you create make money and will they last indefinitely? Of course not. And that is why I focus on creating two additional streams every year. In these coming chapters, you will see how easy it will be for you to increase your income by two to five times by broadening your primary source of income and adding additional income streams, all going legitimately into your pocket. No gambling sources, whatsoever!

Let's first focus on how to widen your primary income stream.

What Determines A Person's Income?

Before you can increase your primary source of income, you must first understand what determines a person's income. Why is it that one person is paid $3,000 a month while another person is paid $30,000 a month? Every time I ask this question to people, I get standard answers like, 'age, qualifications, experience, luck, title, special skills, specialized knowledge, intelligence and so on'. Well, none of this is really accurate.

There are so many examples of people who are younger, less academically qualified with less experience who are earning much more than a 45 year-old Harvard MBA graduate who happens to be a member of MENSA. It is also not uncommon to see people with less experience in a company earn much more than someone who has been there for the last twenty years. So what does determine a person's income?

The True Definition of Income

A person's income is determined by the amount of value he/she creates multiplied by the time he spends creating value multiplied by the scalability factor. In other words,

INCOME = VALUE x TIME x SCALABILITY

So, in order to increase your income, you must increase the amount of value you create, the time you spend creating value and your scalability factor.

Your Income is A Refection of the Value You Create

Let's first focus on how your income is determined by the value you create. Well, let me give you a metaphor. Recently I went to the mall to buy a new mobile phone. When I found the mobile phone shop, I saw all kinds of brands and models on display – the price tags they carried all differed widely. I saw a Sony Ericsson 910i model that had a price tag of $1,400 and a Nokia 2600 with a price tag of $238. Now, why is one mobile phone priced seven times more than another? The answer is simple. It's because one phone has a lot more functions and can hence create a lot more value to the user.

The Sony Ericsson 910i is able to make calls, send & receive SMS, send & receive MMS, record and edit videos, play & edit music, take high quality pictures, surf the internet, entertain with games, send and receive emails, has word processing and spreadsheet capabilities, has Bluetooth technology and has an in-built personal digital assistant. In short, it is not just a phone, it is a mini computer! It does a lot more than expected (remember millionaire habit 1). It creates a lot more value for the user by allowing him to achieve his goals more efficiently.

How about the Nokia 2600? Well, it's just a standard mobile phone. It makes calls, sends and receives SMS, has entertainment games and a calendar. It creates a lot less value, and is hence priced lower. If the Nokia 2600 had a price tag of $1400, would you pay for it? Of course not. It's just not worth the price. But if you had the money and needed to surf the net, manage your time, check emails and record images on the go, would you pay $1400 for the Sony Ericsson? Of course! I did!

So let me ask you a question. Which mobile phone do you represent? What is the price tag that you carry? If you want to have a higher price tag and have people pay for you, then you must create the necessary value!

What allows the Sony Ericsson 910i to create so much more value? The answer is that it has a lot more software installed. How does this translate to you? Well, in order for you to create a lot more value to your company and your clients, you must keep upgrading your knowledge and skills, your intellectual capital!

Now you may say to me, 'Adam, I am not a mobile phone, I am a person!' Absolutely! But the same thing applies. Let me give you a couple of examples from different professions. Over the last few years, I have interviewed people who were among the highest income earners in their industry and people who were the average income earners. Sure enough, I found that age, experience and academic qualifications had nothing to do with their price tags. It depended on how much value they created for their company and for their clients they served.

This is an example of two insurance advisors I interviewed from a leading insurance company. Although they are of the same age, have had a similar university education and been in the company for about five years, one earns almost seven times more.

Insuran ce Advisor A, Age 33 Income: $3,000 per month	Insurance Advisor B, Age 33 Income: $20,000 per month
• Waits for leads • Follows up on leads • Gives adequate presentation on product/service features • Closes the sale • Never follows up with the client thereafter • Closes $7,000 worth of premiums a month	• Sets specific monthly sales target • Actively generates leads from all sources • Creates partnership with other companies • Ensures a minimum of two appointments for consultations per day • Gives seminars on financial planning • Writes and publishes a book on financial planning • Does a detailed needs and outcome analysis for potential clients • Presents a highly beneficial & value-added plan for the client • Helps the client save money and identify important needs client may have overlooked (i.e. corporate insurance, estate planning, asset protection) • Follows up every three months to ensure client's emotional & financial needs are met • Sends a quarterly e-newsletter to his customers packed with tips on money management & investments • Ability to generate even more referrals from powerful services • Helps recruit & train more sales people for the company • Closes $50,000 worth of premiums a month

Insurance Advisor B gets paid so much more because he creates so much more value for his clients (he does more than expected & gives them such a worthwhile experience) that it not only keeps them coming back to him but they are happy to recommend B to their friends.

The next example I can give you is of two teachers from a Singapore school. One Teacher (B), age 34 has been promoted to head of department just after four years in the school. Teacher (A), age 42 has been with the school for over 12 years and has yet to been given more responsibilities.

Teacher A, Age 42 Income: $4,000 per month	Teacher B, Age 34 Income: $9,800 per month
• Teaches the curriculum • Gives & marks homework • Gives tests & marks papers • Fulfills minimum CCA duties	• Teaches the curriculum • Able to motivate & inspire even the weakest & most unmotivated students • Innovates and develops new curriculum/ teaching methods • Writes system of best practices and trains new teachers • Produces Innovative marketing ideas to enroll more students • Develops strong rapport with parents and provides additional family counseling • Innovates ideas to increase department productivity & reduce expenses • Has written six textbooks and assessment books that are sold locally and over the internet • Uses accelerated teaching methods to boost grades • Conducts seminars and workshops on weekends for parents on 'how to motivate their children' • Conducts seminars for students on 'exam skills' • Consultant to private tuition centres

Again, Teacher B gets paid a lot more because she is able to create so much more value to the school and to her students.

The final example I want to give you is of two account directors from an advertising agency. Their jobs entail managing the client's

advertising accounts. A is paid $3,000 per month while B is paid $8,000 per month. Let me ask you this question, 'Which employee is more expensive to his company? Is it A or B?'. On the surface, it looks like B costs the company a whole lot more in terms of salary, but let's take a look at what value they add to the agency.

Account Director A, Age 46 Income: $3,000 per month	Account Director B, Age 32 Income: $8,000 per month
• Waits for company to assign clients to him • Takes advertising brief from the client • Instructs the creative team • Executes ads within deadline • Manages assigned client well • Creates gross profits of $30,000/mth	• Actively networks, makes cold calls & sets at least one new appointment a day • Actively develops new business & finds his own clients • Takes the advertising brief from the client • Develops more marketing ideas that convinces the client to increase the advertising budget. • Brainstorms & develops a powerful campaign by leading the creative team • Executes ads and other marketing tactics within the deadline • Tracks the success of campaigns & initiates follow up strategies to sell to the client • Uses successful testimonials to secure even more clients • Creates gross profits of $300,000/mth

Again, A does exactly as he is expected (sustains value) and B does a lot more than expected (creates value). So which director costs the company more? The answer is director A. Why? Because director A only creates gross profits of $30,000 a month. After deducting his salary of $3,000, the agency only earns $27,000 in gross profits. As for director B, he helps the company earn an additional $300,000 a month. After deducting his $8,000 salary, the company still grosses $292,000 per month. To the company, B is a much better investment.

If Director B were to go up to the boss and ask for double his salary (i.e. $16,000), would the boss say yes? If the boss was smart, of course he would say yes. Why? Because the additional $8,000 is nothing compared to the value he adds.

If he does not agree to the raise, do you think that there will be other companies out there who would be willing to pay him? Of course! That is why people who choose to be value creators are constantly being head hunted by other firms willing to double their salary! In fact, I constantly look out for these kind of people in my competitors' company and offer to double their salary if they were to join me. Remember, when you create tremendous value, YOUR market value and price tag will increase automatically.

Let me use myself as the final example. Why is it that companies are willing to pay me $2,500 per hour in speaking fees while many other speakers are charging only $1,000 per hour? What's more, my schedule is continuously booked while some of my peers speak for only a couple of times a year. The reason is because I create so much more value for my clients.

How? While other speakers are only able to present a particular topic as expected, I blow my client's audience away by entertaining them, inspiring them and sharing with them the most powerful marketing, personal development and communication strategies available. As a result, after my talk, they are so motivated, empowered and equipped with the strategies that they are able to work harder and smarter and create a lot more profits for their companies. So, paying me that $2,500 is nothing! It is well worth their while because I have helped my clients achieve their goals of boosting employee productivity and morale.

Through all these examples, there is one important point that I want to get through to you, and that is your income (price tag) is determined by the amount of value you create for your clients and your company. You can have all the experience, all the MBAs, all the intelligence but if you do not create value, people will not pay a high price for your services or products. So how do you create value?

There are only two ways you can create value for your clients. Either:

1. Help them reach their goals faster and more easily or
2. Help them solve their problems faster and more easily.

The more you can do this, the more they will be willing to pay what you are worth.

Similarly, there are only two ways you can create value for your company. Either:

1. Help the company increase sales or
2. Help the company to reduce costs.

This will increase the company's profits. You must understand that all businesses have only one major goal, to make more profits every year. The more profits you can help your company make, the more you will be worth!

INCOME = VALUE CREATED FOR CLIENTS/COMPANY

How Much Are You Worth Currently?

The first thing you must do is to determine your current price tag. How much are you worth currently? Only when you know where you are, can you then move to where you want to be.

To calculate this, take your monthly income and divide this by the number of hours you work. This will give you your value per hour. So grab a pen and do this now. For example, if you earn $3,000 a month and work an average of 180 hours a month, then your value per hour is $16.67 per hour.

$$\text{My current value/hour} = \frac{\text{Monthly income}}{\text{Hours worked per month}}$$

$$= \frac{\$\_\_\_\_\_\_\_\_\_\_}{\text{Hours}}$$

$$= \$\_\_\_\_\_\_\_\_\_\_ \text{ per hour}$$

How Much Do You *Commit* to be of Worth?

The next question you must ask yourself is, 'How much do you commit to be of worth?' What is the price tag that you choose to have? Once you know what price you can command, then you must ask yourself, 'What value must I create for my company and clients to be worth this price'. If you choose to be like the Sony Ericsson 910i mobile phone with a $1,400 price tag, then what functions must you offer?

So, write down in the space below your targeted value per hour.

I commit to be worth $ __________ per hour
$ __________ per month
$ __________ per year
I commit to achieve this by __________ (set a deadline).

Who can you model in your industry that commands this value? What value do they create?

So what must you do to command this price? The next step is to identify people in your industry who are earning the income that you want. Then observe, model and study them. What do they do daily? What value do they create for their clients & for their company? For example, when I first started out as a trainer, I was paid $50 per hour, simply because that was what I was offered. So I asked myself, 'what do the top trainers get paid per hour?' I found out that the going rate was $1,000 per hour. So, I went to attend as many of their talks as I could, finding out what they did well and what kind of value they created.

So, from a $50 an hour speaker, I boldly set my target to become a $1,000 per hour speaker, within two years. I achieved my goal and I didn't stop there. I kept asking myself, 'How can I be priced even higher? How can I double the value that they create?'. By asking

these questions, I kept focusing on making myself even better and better and, as a result, I could raise my speaking fees by $800 more each year, until I reached my current $2,500 per hour mark.

So, now it's your turn. I want to you start brainstorming and write down the names of the highest income earners in your industry. Do not confine yourself to your own country. Rather, benchmark yourself against the best in the region, even in the world. Next, commit to observing and modeling them to find out what they do and how you can do even better. Write down the value which they create.

How to Double Your Company's Profits in Less than Six Months

Many people have asked me, 'what can I do to increase my company's sales and profits?'. Whether you are an entrepreneur or an employee, I am going to share with you a formula that you can use to double the profits of your department or company within less than six months. I call this the Profit Multiplication Formula.

In any kind of business, profits are only determined by five variables: Leads generated, conversion rate, average dollar purchase, average repeat business and net profit margins.

Leads represent the number of potential customers or prospects that the company generates through walk-ins, inquiries, cold calls & recommendations. Let's say that out of every ten prospects, two eventually end up buying, this means that the company's average **conversion rate** is 20%.

So, if you multiply the number of **leads** generated a year (also known as prospects) by the average **conversion rate**, it will determine the **number of customers**. This is illustrated below.

Leads
X Conversion Rate
= Number of Customers

Now, some customers may spend more money and others may spend less, but there is always an **average dollar purchase** per customer. At the same time, some customers may only buy once while others may return to buy several times a year. This is known as the average **repeat business** per customer. If you multiply the number of customers by the **average dollar purchase** and by the **number of repeat business**, you will get the annual **sales revenue** of the company.

L ads
X Conversion Rate
= Number of Customers
X Average Dollar Purchase
X No. of Repeat Business
= Sales Revenue

Now, assume that your company's sales revenue is $100,000 a year and the total cost of production & overheads are $80,000 a year. This means that the company's **Net Profit Margins** are 20%. If you multiply the **Sales Revenue** by the **Net Profit Margins**, you will get the company's net profits for the year.

Leads
X Conversion Rate
= Number of Customers
X Average Dollar Purchase
X No. of Repeat Business
= Sales Revenue
X Net Profit Margins
= Net Profits

In order to create value to your company and increase its profits, you must either increase leads, conversion rate, average dollar purchase, number of repeat businesses and/or net profit margins.

Now, the number of variables you can influence will depend very much on the role you have in the company. If you are the owner or are a department manager, chances are you can take action to increase all five variables and massively create value. If you are a salesperson, then you can influence leads, conversion rate, repeat business and dollar purchase. If you are in operations, you can directly influence conversion rate, number of repeat businesses and net profit margins. If you do your job really well and exceed client's expectations, they will keep coming back and spending more. If you can work more efficiently and come up with strategies to improve the operational efficiency, margins will increase!

To what extent can you increase your department's/company's profits? Let's take a look. Imagine if you are working for a shoe retailer and the company currently shows the following numbers every year.

	Leads		5,000
X	Conversion Rate	x	25%
=	Number of Customers	=	1,250
X	Average Dollar Purchase	x	$200
X	No. of Repeat Business	x	1
=	Sales Revenue	=	$250,000
X	Net Profit Margins	x	20%
=	Net Profits	=	$50,000

The Impact of Increasing The Five Key Variables by 10%

Do you think it is possible to increase each variable by 10%? Of course! It is only a question of testing out different strategies and taking action!

a. Increasing Leads

What can you do to help your company increase leads? The specific strategy would depend on whether your company is a Business to

Business (B to B) enterprise or a Business to Consumer (B to C) enterprise. But in general, you could take the following actions!

- Learn how to create more effective advertisements (Stronger headlines, more persuasive copy, i.e. text)
- Test new media channels (e.g. Newspaper, magazine, outdoor ads etc...)
- Make more cold calls
- Use telemarketing efforts
- Hold seminars & road shows
- Increase networking efforts
- Hold special promotions
- Create a referral system or member get member scheme
- Start email marketing... the list goes on

b. Increasing Conversion Rate

How can you boost your company's conversion rate? There are many strategies you could use such as...

- Creating a more flexible payment plan (0% interest installment)
- Offer a product guarantee
- Use successful testimonials
- Create more persuasive marketing materials like brochures, videos
- Use NLP* techniques to build strong rapport with clients
- Innovate a new persuasive sales script that works
- Create a more powerful, impressive & persuasive presentation
- Keep following up with prospects regularly... and the list goes on

c. Increasing Average Dollar Purchase

At the same time, there are many things you can do to boost the average dollar purchase of each customer. One great example I can give you is McDonalds. What do they do? They simply ask you to buy more! Have you ever gone into a McDonalds wanting to buy only a cheeseburger? Do they just sell you the cheeseburger? No! They will ask if you want to have a combo meal. They will then ask you to upsize the meal.

Next, they will ask if you would like to have a dessert to go along with the meal. Finally, they will ask if you would like the toy

that is on promotion. So you go in wanting to spend $2, but end up spending $10! They are great at getting their customers to increase their average purchase by five times.

I gave you an example earlier on about the advertising account director who was able to convince his clients to increase their advertising budget. How? Because he showed them that by investing an extra $300,000 in advertisements, they would be able to generate $600,000 in additional profits. If you can show your clients that their investment in your product will reap great returns, they will spend more. So what can you do in your company? Maybe you can:

- Bundle several products in a package
- Create a 'buy three get one free' promotion
- Up sell & cross sell
- Educate your customers on your entire range of services
- Do a complete needs-analysis to find out how you can add even more value (remember the example I gave you about the insurance agent?)

... and the list goes on.

** NLP or Neuro-linguistic programming is the science of being able to program a person's neurology using the power of language. To learn more, read 'Master Your Mind, Design Your Destiny'.*

d. Increasing Repeat Business

What can you do to boost the number of times your customer keeps coming back? Well, you can...

- Exceed their expectations & give them a wonderful experience
- Build a friendship with them
- Keep in regular contact
- Send them special occasion cards
- Start a loyalty program
- Give them a discount voucher off their next purchase...

e. Increasing Profit Margins

Finally, how can you increase your company's profit margins? You can

- Source for cheaper suppliers which are just as good
- Bargain hard with existing suppliers

- Sell higher margin products first
- Increase working efficiency (do it right the first time)
- Strategize how to reduce unnecessary costs...

The strategies that I have just presented to you are just the tip of the iceberg. There are many more strategies that you could test out. I have included a whole list of ways you can increase each of the five variables at the end of this chapter.

Now, with all these strategies I am giving you, do you think by fully employing just some of these ideas you can boost each variable by a mere 10%? Of course! Let's see what happens when you do so...

					Increase by 10%
	Leads		5,000		5,500
X	Conversion Rate	x	25%	x	27.5%
=	Number of Customers	=	1,250	=	1,512.5
X	Average Dollar Purchase	x	$200	x	$220
X	No. of Repeat Business	x	1	x	1.1
		=	$250,000	=	$366,025
		x	20%	x	22%
		=	$50,000	=	$80,526

Just by increasing each variable by 10%, profits jump to $80,530! That is a 61% increase! This is the power of compounding. Small consistent increases in each variable create huge effects to the bottom line!

But this is not challenging enough. Now, think what can happen if, through innovation and hard work, you can help increase each of your company's variables by 20%.

					Increase by 20%
	Leads		5,000		6,000
X	Conversion Rate	x	25%	x	30%
=	Number of Customers	=	1,250	=	1,800
X	Average Dollar Purchase	x	$200	x	$240
X	No. of Repeat Business	x	1	x	1.2
=	Sales Revenue	=	$250,000	=	$518,400
X	Net Profit Margins	x	20%	x	24%
=	Net Profits	=	$50,000	=	$124,416

As you can see, profits more than double (149% increase) to $124,416! Excited yet? Don't be! From my vast business consulting experience I have found that is very possible to double certain variables like 'Leads', 'Conversion Rate' & 'Number of Repeat Businesses' and increase 'Average Dollar Purchase' & 'Net Profit Margins' by 30%. What happens then?

					Increase by 30%–100%	
	Leads		5,000		10,000
X	Conversion Rate	x	25%	x	50%
=	Number of Customers	=	1,250	=	5,000
X	Average Dollar Purchase	x	$200	x	$260
X	No. of Repeat Business	x	1	x	2
=	Sales Revenue	=	$250,000	=	$2,600,000
X	Net Profit Margins	x	20%	x	26%
=	Net Profits	=	$50,000	=	$676,000

The net profit jumps by **13 times** to $676,000! If you can create so much more value to your company/department, you can ask for a whopping 5X increase in salary, and it would still appear cheap to your boss.

Now, you may say to me, 'But I am not directly in control of a lot of these factors. Some of these factors are not even within my job scope'. Remember, when you are committed to a goal, you will find a way! Do whatever it takes! Sometimes, you must do things out of your job scope to make an impact. Again, you want to do so without upsetting the people around you too much. You may also want to consider asking for a transfer to another more challenging position where you can directly influence sales and costs! This way, it is easier for you to create more value!

Commit to Creating More Value Now!

So, with all these ideas and strategies I have thrown at you in the last couple of pages, you should be able to come out with some great ideas of how to create more value to your customers and your company. Now, grab your pen and spend at least twenty minutes of uninterrupted time to brainstorm a whole list of strategies (come out with at least twenty)!

Ask yourself the following questions…

- How can I help my customers achieve their outcomes more?
- How can I help my customers solve their problems?
- What unmet needs do they have that I can meet?
- How can I help the company increase sales & reduce costs?

What Additional Knowledge & Skills Must You Acquire?

Now that you know what kind of value you can create, you must then ask yourself what additional skills, knowledge, competencies and expertise you need to learn or upgrade in order to achieve this?

For example, if you want to be able to boost your company's conversion rate, you may need to acquire stronger presentation skills, marketing skills, skills to write persuasive copy, NLP skills on how to persuade & influence, internet marketing techniques...

So, write down all the additional skills and knowledge that you will commit yourself to acquire. Remember, you must constantly install new 'software' into your mind in order to be able to create more value.

The New Skills & Knowledge I Commit to Acquire Are...

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So, where do you find the resources to continually upgrade your software? Go to www.adam-khoo.com. On this site, I present you with an array of resources ranging from how you can upgrade your skills in the area of communication, leadership, personal mastery, learning to learn, creativity, to many more. I also highly recommend that you visit the website of Adam Khoo Learning Technologies Group at www.akltg.com. You can find out more about the Patterns of Excellence Program, an NLP program designed to empower you with personal mastery and influence mastery skills that will create significant value in anything you do.

How to Translate Value into More Income?

If you are self-employed, then creating more value will automatically translate into higher profits & income. However, as an employee, tripling the value you create is no use unless it translates into a higher price tag.

Do not expect to get a promotion or a raise automatically. If bosses can help it, they would rather pay you much less than what you are worth. Most of the time, you must be proactive and ask for a raise. However, before you ask for double your pay, ensure that you have at least tripled your value! So you can be sure that if the answer is no, there will be a dozen headhunters waiting to pay you what you are now worth!

Once you have created tremendous value, you can...

1. **Ask for a pay increase**
   Again, be confident that you are more than worth the increase!
2. **Ask for a promotion & pay increase**
   When you have demonstrated that you can create more profits, they will be happy to give you a senior management position.
3. **Ask for profit sharing**
   If you are a value creator, you can confidently ask for this.
4. **Ask for variable compensation**
   People who prefer a fixed salary are generally those who are not confident about how much they are really worth. The trouble is, a fixed pay has got no upside. If you have the drive and confidence to create value, ask for a higher performance based compensation (even if it means a lower basic pay). Then you know that you have a huge upside.
5. **Ask for stock or partnership**
   Again, once shareholders can see that you are a value creator, they will want to do what it takes to keep you by giving you ownership.

On the last page of this chapter, I have included a list of strategies that I personally used to increase the 5 key variables in the Profit Multiplication Formula.

Now that you have learnt all the strategies to greatly increase your value, let's move into the next component in the income formula...

Strategies to Increase Your Business Profits

Leads

1. TV, Radio or Newspaper advertising
2. Industry newsletter advertising
3. Internet/email advertising
4. Magazine advertising
5. Outdoor advertising
6. Flyers
7. Hold a promotion or sale
8. Ask for referrals
9. Offer a free gift
10. Insert into other company's invoice
11. Letterbox flyers
12. Sales teams
13. Telemarketing
14. Buying or swapping database
15. Hold seminars, events or roadshows
16. Attractive window display/video
17. Posters and large signage

Conversion Rate

1. Define your unique selling proposition
2. Set sales targets
3. Have excellent customer service
4. Introduce yourself
5. Survey your past customers
6. Sell key benefits passionately
7. High quality in store posters/brochures
8. In-store sales scripts
9. Act as a consultant/problem solver
10. Give a money back guarantee
11. Have a benefits/testimonials list
12. Give free bonuses that increase value
13. Greet prospects and use their name
14. Learn closing techniques
15. Ask for the sale more than once
16. Personal grooming/high dress standards
17. Video in store displays
18. Leave price to last
19. Study and prepare for objections
20. Have specialized knowledge about your product & industry
21. Focus on the client's needs and emphasize benefits

Conversion rate (ctd)

22. Convenient payment scheme (NETS, Credit card)
23. Offer installment schemes with zero interest
24. Allow mail order/home delivery
25. Address concerns/possible objections upfront
26. Sell on value not price

Number of Repeat Business

1. Direct mail offers of the month
2. Keep in touch every 3 months
3. Inform your clients of your entire range of services
4. Target likely repeat customers
5. Send special occasion cards
6. Make customers feel special (super experience)
7. Build a close relationship
8. Create a loyalty program

Average Dollar Purchase

1. Focus on a higher income target market
2. Use a shopping list
3. Sell add-ons/up sizes
4. Make sure your client knows your full range of services
5. Suggest most expensive first
6. Create value packages
7. Buy three get one free deals
8. Ask people to buy some more
9. Increase prices by 10%
10. Arrange easy finance and payment
11. Free gift/lucky draw with $xx purchase

Net Profit Margins

1. Increase prices
2. Sell on value/service than price/discounts
3. Set monthly budget targets
4. Track costs weekly and aim to reduce by 10%
5. Stop running ads that don't work
6. Sell more higher margin items

chapter 7

Time is Money... Here's How to Maximize it

Consider this scenario. There are two lawyers A and B who create the same value of $200 per hour. If lawyer A worked for 18 hours a day and lawyer B worked for 7 hours a day, who would have a higher income? Obviously lawyer A. Why? Because lawyer A spends a lot more time creating value.

Therefore, 'Income' equals to 'Value' multiplied by 'Time'.

INCOME = VALUE x TIME

So besides increasing your value per hour, you must also increase the time you spend creating value to boost your income. If you are self-employed, then you are usually paid by the hour or by the job or project. So obviously, when you work longer hours and more days, your income will increase!

One of the reasons I made so much money within a short period of time was because I was on-stage speaking (where I create the greatest value) for over 300 days a year, many of which were seven-hour days! If there were certain times of the year when business was slower in my home base of Singapore (especially during the school exams when students could not attend my training sessions), I would go to countries like India, Malaysia and Indonesia to fill up every day of my time. When you maximize your time creating value, you maximize your income.

It is Not the Number of Hours You Work...

Now you may be saying to me, 'I am already working eighteen-hour days! How much harder can I possibly work?' Or if you are

for somebody else you may be thinking, 'This does not apply to me. As an employee, my hours of employment are fixed from 9am to 6pm. I do not get paid more for working longer hours'.

When I talk about increasing the time you spend creating value, I do not necessarily mean that you must work longer hours. Rather, you must spend more of your time only on activities that create the greatest value... that generate the most profits for your company.

Whether you are an entrepreneur or an employee, you will have a list of things that you must do everyday as part of your responsibility. You will find that not all the things you do create the same amount of value. There are some activities that create high value while some activities are low in value. In fact, I have discovered that most average income earners spend only about 20% of their workday doing truly high value added activities while they spend most of their time, about 80%, on low value activities like checking email, attending unproductive meetings, chit chatting, complaining, waiting, finding lost items... stuff that does not generate profits or help clients meet their goals.

High-income earners are the opposite. They tend to spend 80% of their time on high value added activities like business development, closing sales, innovating new revenue streams, market strategizing, following up with prospects, strategizing on how to improve productivity, managing projects, getting feedback from clients... stuff that lead to high customer satisfaction and higher profits!

How I Was Losing $4,900 a Day Doing the Wrong Work

Let me give you an example of how I lost a potential $4,900 a day when I first started out in the training business by spending too much of my time on the wrong sort of work. Like every small start-up business person, I was a one-man show. Naturally, I had to do everything myself.

I had to write proposals to clients, make cold calls, do sales presentations, conduct the training itself, prepare logistics, prepare training materials, do administration and finally, manage the financial accounts.

Now among all my activities, which one do you think created the most profits? The answer is when I was training. Every day I trained, I earned for my business $5,000 (100 students multiplied by $50 per student). However, because I had to do all the other activities, I only had the time and energy to do a maximum of six training days a month, thus the most I could gross was $30,000 a month.

I thought of hiring people to do the administration, logistics and accounting but I was initially too stingy. I thought to myself, 'If I hire an administrative assistant, I would have to pay the person $2,000 a month'. 'If I do it myself, then I would save the money!'.

What I did not realize then was that by doing the admin, accounts, logistics and selling myself, I was actually losing money everyday! Why?

You see, every day was worth a potential $5,000 if I spent it doing training.

If I were to hire an administration assistant, I would have to pay the person $2,000 a month, which works out to $100 a day (assuming 20 working days a month). If I did the administration work myself, I would save $100 a day. However, I would be losing a potential $5,000 as I would not be able to be out training. So although I save a potential $100, I lose a potential $5,000, I end up losing $4,900!

The moment I realized this, I went out and hired an assistant to take care of all my admin work like filing, answering calls, arranging logistics, coordinating with clients and so on... This freed me of a collective five days a month which I could now spend doing training and earning my business an additional $25,000 a month. Not bad, I invested $2,000 to earn back $25,000!

Immediately I went out to hire an accountant to free up another two days of my time, which was the time I had spent doing all my accounts. Again, my earnings jumped by $10,000! So, I went out and hired a telemarketer, a salesperson, a logistics manager and so on. Within a year, I had ten staff who did all the lower value activities for me. As a result, I could spend 100% of my time just training! I ended up training twenty-five days a month, grossing for my business $125,000! Even though I had to pay total staff salaries

of about \$20,000, I still earned \$100,000 a month, more than triple of what I used to!

The lesson is this. You must find the activities where you generate the highest value for your company and spend most of your time doing that! If you can, delegate the rest.

Today, I know that my time is worth a potential \$2,500 per hour when I am speaking. So if I can hire someone at less than \$2,500 an hour to do any of the other company activities, I would do so. This is why today, I have over eighty staff (spread over three companies). They enable me to fully concentrate on where I can generate the greatest profits. Now, bear in mind that all of us have different areas where we create the greatest value. For example, my business partner' Patrick is really great at networking, doing business deals and building new profit centres (which I don't enjoy doing), while he, to put it politely, would put even a hyperactive teenager to sleep if he were to do public speaking. So Patrick focuses the majority of his time traveling around doing huge business deals as each deal he closes and each new business division he sets up is worth millions of dollars to our company!

Once you know how much your time is worth, you will think twice about spending your time idly. For example, a couple of months ago I had to accompany my wife to see the gynecologist as she was expecting our second child. We had to wait an average of an hour each time before the doctor could see us. I noticed that most of the other couples would just sit around and wait. For me, realizing that every hour I sat idly waiting cost me \$2,500 (in potential lost earnings), made me take my laptop along the next time. While waiting I would start writing more pages for my next book.

You see, I estimated that every book I write is worth \$550,000 in gross profits. So if I spend the hour writing at least five pages, then I would be creating \$9,167 worth of value! (Out of a 300-page book I calculated each page written to be worth \$1833 based on past sales of my books).

You should understand that to be a self-made millionaire you must bear in mind that time is money. You must be very focused on how much each hour of your time is costing you! For example, when I bring my family on a five-day holiday, in my mind, it is

costing me \$45,000! (\$5,000 for the cost of the trip and a potential \$40,000 that I am worth for those 5-days). So I make sure that I enjoy each of those five days to the maximum and treasure my time with my family!

How Dr. Dennis Wee Made Millions Selling Property by Maximizing His Time

Let me give you another example. I have a good friend Dennis Wee who owns one of the largest real estate companies around. I once asked him the secret of his success (He made millions selling property from a very young age). Why was it that many real estate agents remain a one-man show while he has managed to build a huge property empire? And he has done so without a university education? Dennis told me that it was because he knew how to spend his time only on activities that created the most value.

You see, as a real estate agent your list of monthly activities include making calls to prospects, handing out flyers, administration, research new properties available, accounts, paperwork and of course, showing houses to prospects. Again, out of all these activities, which one do you think generates the highest value and profits? The answer is when he is showing houses to clients!

Most of the houses he sold were worth about \$2 million each. Every time he closed a sale, he would earn a commission of 1% or \$20,000. Now, it took him roughly ten days of showing houses to many prospects before someone eventually buys. This means that each day is worth a potential \$2,000! (\$20,000 in commission divided by 10 days).

Most real estate agents never become super rich because they always have the 'do it myself' mentality and dare not invest in other people. But Dennis knew that if he were to hire an assistant to do the paperwork and telemarketing, it would cost him salaries of about \$4,000 a month, or around \$200 a day. However, if he were to do all these tasks himself, he would save this \$200 a day, but it would cost him a potential loss of \$2,000, as he would not be able to spend this time showing houses! This would be a net loss of \$1,800!

So by hiring a whole team of staff to do all the low value work, Dennis could spend 90% of his time seeing clients, showing houses and closing deals that generated millions of dollars of profits for his company. He also told me that he makes full use of every hour of his day, to ensure that no hour was used idly. As a real estate agent, lots of time is spent waiting for clients to show up. Again, most agents would just wait and waste their time. Dennis would spend every minute waiting doing something that created value. For example, he would be on the phone calling more prospects and inviting them down as well as going to all the nearby houses and stuffing their letterbox with his specially designed promotional flyers.

How to Spend 70% of Your Time On High Value Activities... Then 100%

You may be wondering to yourself, 'But, I am an employee! How can I choose to only do work that is of high value? Who am I going to delegate it to? Many of the low value work like checking emails & paperwork are still necessary, they must be done!'.

Yes, if you are currently employed in a job, you must still do everything yourself initially. However, start focusing on doing all the high value activities first. Spend at least 70% of your total workday on these activities. Then, use non-work hours to clear most of the 30% low value stuff! The hours of 9 am – 6 pm are the critical times when your actions must be generating high profits, like developing new businesses, following up with clients, ensuring product quality, strategizing growth in meetings and so on. Doing paperwork, organizing your files, surfing to research materials and checking emails should be done **after** office hours.

Once you have managed to fully optimize your time, you must then take the next step. You must ask for an assistant so you can delegate all your low value activities to this person and fully concentrate your time on high value activities. Remember, if you do not already have an assistant or one is not provided for you, be proactive, ask for one (Millionaire Habit 2!).

Why would your boss want to get you an assistant and increase the company's monthly expenses? Again, if you can show that by investing in an assistant for you at $3,000, you can be freed

to generate an additional $15,000-$30,000 in value, it will be an obvious decision to do so.

A Lesson that My Staff Taught Me

Another example I can give you is from my own advertising agency. I have got a number of account managers and directors. Some of them generate gross profits of over $45,000 a month, while others manage only about $22,000. Obviously I pay the $45,000 person double what I pay the other, regardless of age or qualifications.

When I observed how they worked, it was obvious why this was happening. The $45,000 account manager spent 80% of the time, out of the office making presentations to secure new clients and visiting existing clients to get more advertising business. He would then spend 20% of his time on office admin like checking the spelling, grammar of ad copy & coordinating workflow with the creative and media departments. On the other hand, the $22,000 manager was spending most of the time in the office on the low value detail work and hardly any time strategizing on new campaigns or on business development.

When I first started out in business, I was not aware of the need to maximize the value of time until one of my staff, an accounts manager, taught it to me! This accounts manager came up to me and asked for a secretary. At first, I thought that he was just being lazy and wanted to do less work. It appeared to be an unnecessary cost, so I did not approve it.

However, my accounts manager did not stop there. He knew that if he proved to me how it would be a great investment, I would approve. He was paid $4,000 per month at the time and had to do everything that was necessary to manage the client's advertising account. He told me that he was already working full eleven-hour days and that he just could not take on more clients and increase his gross profits from the $35,000 he managed every month. But if I could get him a secretary for around $1,800 a month, he would have 40% of his time freed to bring in and manage additional clients and easily add another $20,000 in monthly profits. Once I saw the math, I gave the go-ahead!

How Do You Use Your Time Now?

Now that you know the value of time and how to increase time spent on creating high value activities to maximize your total worth and ultimately your income, it is important that you do two exercises to find out how you currently spend your time.

In the first exercise, I want you to pick a typical work day in your life. For each of the time periods, fill in the typical activity you would be doing. In the last column, indicate on a scale of 1 (lowest) to 5 (highest), the amount of value that activity creates. This is obviously very subjective so it depends on your judgment. Again, remember that an activity is high in value if it directly or indirectly results in customer satisfaction and/or higher profits.

Exercise 1: How Do I Spend My Time Everyday?

Time	Typical Activity	Value Creation (1-5)
9 - 10 am		
10 - 11 am		
11 - 12 pm		
12 - 1 pm		
1 - 2 pm		
2 - 3 pm		
3 - 4 pm		
4 - 5 pm		
5 - 6 pm		
6 - 7 pm		
7 - 8 pm		
8 - 9 pm		
9 - 10 pm		
10 - 11 pm		

Now, in the second exercise, I want you to list down all the activities that you must do in your job, what percentage of time you spend on each activity and again, the level of value creation.

Exercise 2: How Do I Spend My Time Everyday?
Indicate how much value each activity creates (scale of 1-5)

Activity	% of Time Spent	Value Creation (1-5)
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
Total	**100%**	

Welcome back! I assume you did the exercise right? Great! So, what did you discover about yourself through this activity? Are you spending your time optimally? Or is there a lot of unproductive time spent everyday? Is there a lot of room for you to spend more time on activities that will increase your value and income?

Think! How can you massively increase your total worth by focusing on the activity that creates the most value to your employer or business?

Now, in the next two exercises, I want you to re-plan the use of your time. Re-plan your daily activities so it will maximize your time value. Take at least twenty minutes to do the next two exercises.

Do it right now! I assure you this is time very well spent.

Exercise 3: How I Can Maximize My Time Value?

Time	Typical Activity	Value Creation (1-5)
9 - 10 am		
10 - 11 am		
11 - 12 pm		
12 - 1 pm		
1 - 2 pm		
2 - 3 pm		
3 - 4 pm		
4 - 5 pm		
5 - 6 pm		
6 - 7 pm		
7 - 8 pm		
8 - 9 pm		
9 - 10 pm		
10 - 11 pm		

Now, in the next exercise, I want you to list down all the activities that you must do in your job, what percentage of your time do you intend to spend on each activity and again, the level of value creation. And, more importantly, which activities do you want to delegate to other people eventually?

Exercise 4: How Can I Maximize My Time Value

Activity	% of Time Spent	Value Creation (1-5)	Delegate?
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
Total	**100%**		

What are the activities that you can delegate right now?

What are the activities you will plan to delegate in the near future? What is the deadline for this?

With the completion of this exercise, you have now learnt the strategies of how to maximize your value and your time. In the next chapter, we will move on to the final and most powerful component of the income formula...

chapter 8

How to Magnify and Multiply Your Income in Any Career

In the previous two chapters, we learnt that a person's income is determined by how much value he creates for people and how much time he spends creating that value.

So, let me pose you this question. Between a pop star like Madonna and a heart surgeon, who creates greater value in a person's life? Of course it is the heart surgeon! The heart surgeon has the ability to save a person's life whereas Madonna can only make a person feel good for a couple of minutes.

Why then is Madonna paid 100,000 times more than a heart surgeon? What does Madonna have that the typical heart surgeon does not have? The answer is the **'scalability factor'**.

The scalability factor is the final and most powerful component of the income formula. It is what separates the rich from the super rich. The **scalability factor** is the extent to which you can **magnify** or **multiply** the effects of your value. It is the extent to which you can leverage your value & time.

The Power of Magnifying Value

For example, for three hours work, how many lives can the heart surgeon save? He can probably only save one life. He creates tremendous value, charging probably $10,000 maybe even $20,000 for an operation. But he can only touch one life. In that same three hours of performing in a concert, how many people does Madonna's singing benefit? Thousands and if it is broadcast live, maybe even millions. So the value she creates is magnified tremendously whereas the surgeon does not have the power of magnification.

The Power of Multiplying Value

If Madonna were to spend three hours singing an album of songs in a studio and if it were to be recorded on a CD, how many times would she get paid for it? The answer is multiple times. Every time that CD is sold, she would earn a percentage of money, called a royalty. If that CD album sold a million copies a year, she would get paid $5 million over and over again every year. In this case, her value of singing is multiplied many fold!

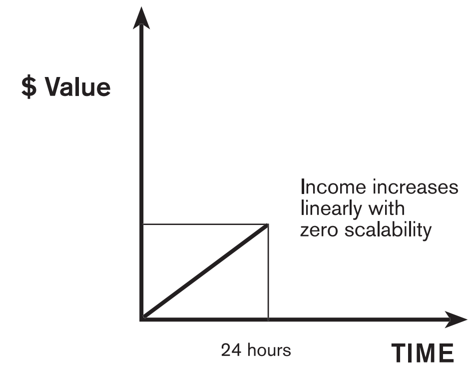
As for the heart surgeon, he would generally be paid only once for the operation. Must you keep paying him royalties every year in order to keep your repaired heart? Of course not! Sure, your arteries could get clogged up again and you may need a second operation a few years down the road. But the multiplier effect in the case of a heart surgeon is twice at most. (Unlikely to have a third time because the patient would probably have died)!

So, as you can see, a person's income can massively increase when multiplied by the power of scalability.

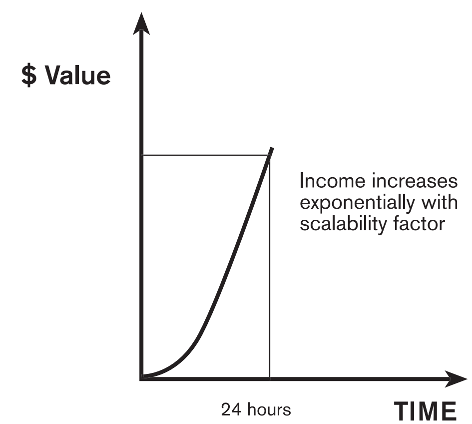
INCOME = VALUE x TIME x SCALABILITY

Linear Income Versus Exponential Income Growth

When you focus only on increasing your value per hour and the time you spend, your income increases in a linear fashion. There is a limit to how much you can earn a month, since there is a limit to the number of productive hours you can work. You are literally just selling your time for money. For example, even if you are a top lawyer who earns $300 per hour and you can only work a maximum of 180 hours a month, your maximum earnings would amount to only $54,000 a month or $648,000 a year. Now you may say to me, 'Adam, that's not bad at all!' Sure, but why set a ceiling on your earning power?



However if the lawyer were to use the power of scalability by magnifying and multiplying his value (legal advice), which you will learn in this chapter, then he could earn five to a hundred times more in that same twenty-four hour period. Scalability is what separates the upper middle income earners and the rich from the truly super rich. Scalability explains why someone can make 100 times more money within twenty-four hours than anybody else.



How Anyone, In Any Profession, Can Massively Scale their Value

Many people have the perception that you can only achieve scalability when you are singer, movie star, sports star or a famous celebrity. Absolutely not!

You can achieve massive magnification or multiplication in any profession, whether you are a chef, garbage collector, lawyer, doctor, teacher or software programmer.

When you fully utilize the power of (value x time x scalability), your wealth will grow exponentially. Let me give you examples of people who have created massive wealth as a result of understanding the power of this formula.

a. How a Chef Made Millions Starting at the Age of 65 – and he'd started broke too!

I am sure you have all heard of Colonel Harland Sanders. He is the portly Southern American 'gentleman' the life-size statue fronting all Kentucky Fried Chicken outlets to greet patrons. Of course Colonel Sanders is a multi-millionaire many times over but do you know that before KFC, Colonel Sanders had found himself at 65 years of age totally broke with nothing but a social security check for $105.

But in less than ten years, at age 73, he had become a self-made multi-millionaire and a household name! How did he achieve this? By being one of the first people in the world to understand the power of multiplication!

Colonel Sander's tremendous **value** came from his ability to innovate great tasting chicken that people love to eat. How? By developing his secret blend of eleven herbs and spices and insisting that all his chicken be pressure cooked for hours, something that most other chefs were not willing to do. In fact, Sanders was so insistent on the superiority of his recipe that he refused to sacrifice taste by cooking his chicken quicker. Remember, when you do something out of passion (Millionaire Habit 4), do more than expected (Millionaire Habit 1) and think of the value you give to others, money will come naturally.

However, initially Colonel Sanders, though he worked day and night selling his great tasting chicken from his restaurant in Corby, Kentucky, never became wealthy. Why? He had the power of (value x time), but he lacked the scalability factor.

It was in fact a twist of fate that got the Colonel thinking of how he could massively scale his value. One fateful day, the government built a highway that diverted all the hungry motorists away from his business. As a result, Sanders was forced to close the business down and that's how he found himself broke at age 65. Instead

of giving up, he came up with the fantastic idea of approaching restaurant owners all over the country to offer them his secret recipe for their use. In return, he would get a percentage of the profits for every chicken they sold. Within a few years, restaurants all over the country were selling thousands of chicken everyday, using his recipe! Through his franchising concept, he received thousands of dollars in checks every month. He multiplied his value a millionth fold as a result and at age 73 he could sell his business for $2 million. Remember this was in 1963 and that was a huge sum of money (equivalent to over $10 million today).

b. How a Feng Shui Lady 'Master' Made Millions Starting Out at Age 45

Feng Shui is the Chinese art of controlling a person's energy flows through the positioning of objects in a room to optimize health, wellbeing and luck.

In Asia, most Feng Shui masters consult for individuals and companies and charge either by the hour or by the project. Some of the best and most skillful masters charge up to $2,000 per hour in consultation fees. Even then, there is a limit to how much they can earn a month, given that there is a limit to the number of hours they can spend on consultation.

However, Lillian Too, one of the world's most famous Feng Shui masters turns over millions of dollars a year by using the power of (value x time x scalability). Her value comes from being one of the very few to translate this ancient Chinese art into English and bringing it to the west. She also created massive value by being one of the first to show how Feng Shui can be applied to not just homes or offices but to a person's wealth, career, health and relationships. Again, what has made her truly wealthy has been her ability to scale her value.

Instead of just giving one-on-one consultations, like most Feng Shui masters do, Lillian delivers hundreds of seminars every year to thousands of people all over the world. Once a year, she holds a mega event called Feng Shui Extravaganza where she tells people how to maximize their luck in the coming year. This seminar is packed with over 2,500 people each time. At an average price of $93 a ticket, she earns over $232,500 a day! See how she has magnified her value many times over?

In addition, Lillian has written over eighty books on Feng Shui, and these have been translated into over thirty languages, selling all over the world. Now, assuming a very conservative estimate of 10,000 copies sold per book, that's 800,000 copies being sold a year. If she earns a conservative royalty of $2 a book, that's $1.6 million a year, and this figure recurs every year as long as the books are selling. Her value, just for her books alone, is being multiplied many fold. And that's not all.

Lillian has built an entire chain of shops called 'House of Feng Shui' and has created an online 'Feng Shui Megamall' (www.lillian-too.com) that sells all kinds of amulets, crystals, accessories, books and ornaments for people who want to enhance their energy flows. From the millions generated from these businesses that she created, Lillian enjoys multiple streams of passive income.

c. How A Doctor Has Over 100,000 Patients from 112 Countries Under His Care

Now, most people would think that professions like physician would be somewhat hard to scale? Not so. While most doctors create tremendously high value but can only treat a maximum number of patients a day and sell a limited quantity of medication, a doctor in India and found a way to massively scale his medical value.

Dr. Rajesh Shah of Mumbai India has an online medical practice (www.e-homoeopathy.com) where he is able to consult and treat hundreds of thousand of patients a year from over 112 countries. His high value comes from the fact that he practices homoeopathic medicine, a holistic form of medicine that treats diseases from a revolutionary totalistic approach. Using the power of the internet, Dr Shah is able to provide his services to the entire world. Basically, people email him their symptoms and pay through their credit cards online. He will then make his diagnosis and deliver medicine to his patients anywhere in the world. As a result, he is able to massively magnify his value and his income. In addition, he sells a whole range of medical devices, information and medicines that allow him to multiply his value and his income even further.

d. How a Teacher/Counselor Makes Over $500,000 a Day

Can a teacher/counselor make $500,000 a day... or more? Maybe not an ordinary teacher or counselor but a personal development extraordinary like Anthony Robbins has certainly pulled it off. How did Tony manage to make his first million by the age of 24 when he had started out in life as a lowly janitor at age 14! Again, talented Tony, recognized today as the world's most famous motivational speaker/teacher/counselor, understood the power of value and scalability. (He had counseled former President Clinton during Clinton's darkest days when the Monica Lewinsky scandal threatened Clinton's presidency).

As a peak performance speaker, Tony creates tremendous value by his ability to deliver his messages with tremendous amounts of humor, passion and energy. He has also got the ability to take very complicated concepts like NLP (Neuro-linguistic programming) and show ordinary folks how to use it to enhance their lives. But his true wealth has come from his ability to magnify and multiply his value. Every time Tony delivers his seminars, there are no less than 5000 in the audience. With each paying a low average of $2000, that's $10 million for four days work... not bad! Then, through his numerous books, video and audio programs, each of which sells hundreds of thousands of copies all over the world, his value and wealth are further multiplied!

e. Why Bill Gates is the Richest Man in the World

Now that you understand the power of scalability, isn't it obvious why Bill Gates is officially the richest man in the world? It is because he has managed to multiply his value to such an extent that it has touched the life of almost every literate human being on the planet. Nearly everyone on Planet Earth who knows how to use a computer has benefited from a Microsoft product.

How did Gates achieve this? Bill Gate's value comes from his ability to identify and innovate Information Technology solutions for every computer user. It was this ability that got him to buy the DOS software and later innovate the Windows operating system. But his true brilliance comes from his ability to know the power of multiplication. He made a deal with IBM and IBM clone manufacturers that every computer they sell would carry MS-DOS and later Windows as their operating system. By licensing his software to computer manufacturers, he would be assured that for every single computer that is sold, he would earn a fee. As millions of computers are sold all over the world every year, he would get millions upon millions of dollars of 'income fees'. And mind you, this is for every year and for the rest of his life!

Strategies to Scale Your Value Immediately

Getting excited with all the possibilities? Inspired by the examples I've given you? You should be. So, let's now come to consider how you can begin to massively magnify and multiply the unique value that you have? How can you create multiple streams of recurring income for yourself?

There are basically four major strategies you can employ to add the scalability factor to your value.

1. Earn royalties and fees from licensing or selling your intellectual property
2. Magnify your value by reaching more people at one time
3. Earn recurring commissions from sales and referrals
4. Earn profits, dividends and royalties from businesses

Strategy #1 Earn Royalties and Fees from Licensing Or Selling Your Intellectual Property

Many people get intimidated by the term 'intellectual property' as they have a limiting belief that they are not intellectual enough to create something that is of value and can be sold.

In actual fact, any knowledge that you have or any idea, product or process that you have come up with that can help people solve their problems and satisfy their needs is intellectual property.

You definitely have some kind of intellectual property! Why? This is because unless you have intellectual property, you wouldn't be able to create any kind of value in the first place. For example, if you are a lawyer, your intellectual property is the legal know-how you have. If you are a photographer, your intellectual property is the knowledge of photography you have and the pictures you take. If you are a chef, the intellectual property you have are your recipes and your method of preparation. If you are a manager, your intellectual property is your ability to manage people and projects.

Here are some examples of how people from different professions multiply their value through earning licensing fees and royalties from their intellectual property.

a. Inventors get streams of income when their inventions are applied commercially

Have you ever seen a battery tester that comes with a pack of Duracell batteries? Well, this idea was invented by a man named Bob Parker (who also invented the famous 'mood rings'). Like most people, Parker found it frustrating when he did not know if old batteries he had lying around the house had any more energy in them. Instead of complaining which is what most people do, he thought that it would be useful if he could come up with a low cost battery tester that could be attached to every pack of batteries sold. He approached many of the big battery companies to sell his idea, but all of them turned him down. Finally, Duracell agreed to use his invention and in return, pay him a few cents for every battery pack that they sold.

As a result of this unique tester, Duracell battery sales increased significantly and this inventor receives hundreds of thousands of dollars worth of royalty fees every year.

b. Celebrities earn royalties for every endorsed product that is sold (e.g. toys, apparel, sports equipment, food etc…)

Instead of getting paid a fixed fee for endorsing products, smart celebrities (like actors and sports stars) will ask for a percentage from

the profits that their clients earn. As the products keep selling, they keep getting paid royalties over and over again, year after year. So every time you buy that Nike golf ball, a percentage of the price you pay could be going to Tiger Woods.

c. Singers and songwriters earn royalties from their songs

Why do successful singers become multi millionaires? It's because they earn a royalty for every album that is sold or for every song that is downloaded. As they sell millions of CDs all over the world, they get recurring streams of income. Similarly, songwriters also get paid royalties every time their song is played or sung in public.

d. Photographers earn royalties when their images are used

Whenever advertisers or media owners use a photograph in an advertisement, brochure or magazine, they have to pay the photographer a royalty.

e. Visual artists get royalties & licensing fees from their creations

The most famous example of this is Walt Disney. Disney was a cartoonist who first got inspired by a stray mouse he saw on a train. He went on to create the character Mickey Mouse. When a movie producer wanted to use his character in an animated movie, Disney got paid a percentage of the sales every time the movie was played. Later on, when Mickey became hugely popular, hundreds of manufacturers wanted to put this cute mouse on their products – products such as children's apparel, stationery, mugs, balloons, accessories and so on. In return, Disney just had to sit back and watch all the royalty checks come in the mail every month. Today, the Walt Disney Company earns millions of dollars in licensing fees from the thousands of product manufacturers worldwide that use the Disney characters. The same thing happened for the creators of Peanuts, Powerpuff girls, Teenage Mutant Ninja Turtles and the Smurfs.

f. Software & Game designers get royalties

Microsoft owned the DOS program but licensed it to IBM & IBM clone manufacturers to install it in their computers. As a result, Bill Gates gets paid millions of dollars in licensing fees every time the software is installed.

g. Chefs get royalties by licensing their recipes to food manufacturers

A chef creates a fantastic recipe and licenses it to be used in a frozen gourmet food product. He gets paid a royalty for every product that is sold.

h. Authors receive royalties from the books they write & tapes they record

At one time, J. K. Rowling was struggling to earn a living as a single mother. When she wrote 'Harry Potter and the Sorcerer's Stone', it became such a mega hit with children that the royalty checks came pouring in and within less than seven years, the 35 year-old mum had become the highest earning woman in Britain, grossing about US$30 million in passive income each year and sales of her books are still growing exponentially. Then of course there are the movies from her books and the spin off products!

Here's another example. A group of ladies collaborated to write a book for expectant mothers and mothers of young children ('What to expect when you are expecting' series). It became such a big hit that these seemingly ordinary mums started to effortlessly rake in at least US$2 for each of the 10 million copies that have been sold worldwide. That's US$20 million and the income stream is still flowing.

The list goes on. This list is not at all exhaustive! Again, in any profession you are in, you can find a way to earn royalties and licensing fees from your ideas!

Selling Information… The Ultimate Product of the New Economy

Now, you may not be a movie star, a singer, a sports star, but whoever you are and whatever you do, you can definitely make streams of income by selling information as an author.

As you can imagine, this is my favorite strategy as I myself have made a couple of hundred thousands in royalties from the books I have written and co-written! I have basically been teaching students about how to score better grades in school (my first book, 'I Am Gifted, So Are You!'), parents on how to raise intelligent kids ('How To Multiply Your Child's Intelligence'.) and people from all walks of life on how to achieve peak performance ('Master Your Mind, Design Your Destiny'). In fact, royalties and profits from these books account for about 20% of my personal income every year.

The great thing about selling information is that the raw material is free... they are knowledge and ideas you have accumulated in your head! Even if you cannot find enough good information, you can keep enhancing your knowledge by acquiring tons of new ideas and knowledge for free from the internet! Do you think that all the knowledge that I have been sharing with you all came from within my 31-year-old life span? No way! What I know is the result of reading hundreds of books, articles & magazines and modeling the best brains over the years! But my interpretation and perception of all this information is uniquely mine.

So, think about it. What other product can you create where the raw material is free, but the prices you can charge are high, giving you a super high profit margin! I encourage you to be an infopreneur, someone who can make millions of dollars in passive income by turning your ideas into cash.

Is My Information Really Valuable? Do I Really Have Anything that People Would Want to Buy?

Again, most people have a major limiting belief that their ideas are not good or are not of value. They believe that they must be a highly intellectual person, someone with at least a PhD to possess valuable, saleable information. This is simply not true!

I believe that all of us have a unique set of interests, passion and knowledge that is of value to someone else. We always know something a lot more than someone else. You would be surprised to know that over the years, you would have accumulated a unique set of ideas and know-how that many people would be willing to pay for.

Many of the things you know and the skills you have you probably take for granted. You would be surprised how many people would love to be able to know and do some of the things you do. For example, if you have the ability to make friends easily, there will be millions of people out there who would be willing to pay to learn how to win friends & influence people! That's how Dale Carnegie made his millions and his fame – his practical 'How to win friends and influence people' was a runaway bestseller and went on to become the core teaching of his courses.

You must believe that the ideas you have flashing in your head are just as good as another person's idea. It's just that you may not have been taking action on them. Haven't you ever experienced a time when you came up with an idea of how to do something better or how to solve a common problem? You did not do anything about it and a few months later guess what? You noticed that someone else had the exact same idea and was making money from it. Remember the chapter on mindset? If you pre-condition your mind to believe that you have no money making ideas, then your subconscious mind will form a distortion filter such that even if the great ideas are in your head, you would not be able to see them as opportunities at all!

Now, most people are generally lazy and have limited time. If you can show them how they can solve their common problems and achieve their goals in a faster and easier way, they will listen and buy from you.

So what specialized information do you possess? Do you know how to...

Lose weight? Make friends? Reduce your taxes? Find the perfect partner? Stay in a loving relationship? Have better sex? Relieve back pain? Boost your health? Bring up children? Make homemade jewelry? Cook really well? Cure an illness? Excel in playing computer games? Take care of pets?

Here are some more examples of ordinary folk who have turned their ideas into lifetime income streams.

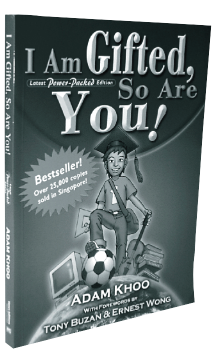
Bert Ingley who is an expert at playing sports computer games sells his knowledge by writing an ebook on his game playing tactics and strategies and offers it for sale on his site www.vgsportsinc.com at US$19.95. In this book, he teaches enthusiastic gamers worldwide how to win at Madden NFL, an online football game. With the worldwide reach of the net, he earns an income of US$187,000 a year!

Steph Bairey has turned his knowledge and love of Iguanas into an additional income stream. He sells a Lizard Care ebook on his website www.practical-pet-care.com and earns profits and royalties every time this book is downloaded. His cost? Free! His profit margins? 100%! In addition, he has leveraged on the success of this book by creating and selling other pet care books for cats, dogs, ferrets, fishes, birds, spiders and so on... creating for himself multiple streams of income.

You Don't Have to be A Good Writer to Be A Best-Selling Author... In Fact You Don't Even Have to Be Able to Write!

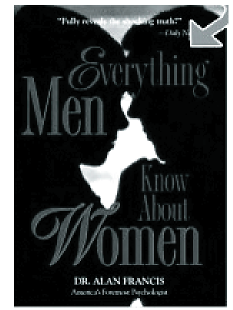
Now you may be saying to me, 'Alright... So I have the great ideas and the specialized knowledge, but I don't have any credentials and I cannot write well.

You know what? You can have no credentials and your English may be ungrammatical but you can still be a best-selling author! Here are some examples of million dollar best-selling authors who either have no credentials or who hardly wrote the book themselves!



Let me start off by using myself as an example. When I wrote my first book, 'I Am Gifted, So Are You!', a book that teaches students how to score top grades in school, I was an undergraduate in the National University of Singapore! My writing was far from perfect, yet I found a publisher. Although the publisher had confidence in the content of what I had to share, my standard of written English was 'not commercially viable' and he asked me to re-write the manuscript three times. I ended up having to get an editor to correct my English before it was deemed good enough for publication! Thankfully, my publisher's confidence in me paid off. My book became a national best-seller within six months!

A Million Dollars from a Blank Book



Twenty one year-old Cindy Cashman from Texas made over a million dollars by writing and publishing a book entitled ' Everything Men Know About Women' under the pseudonym 'Dr. Alan Francis'. This 96-page book is entirely blank (yes, men know absolutely nothing about women), yet this book has sold over a million copies worldwide and is currently ranked four-and-a-half stars on Amazon.com. Following the success of this book, clever Cindy has created more streams of income by coming up with numerous other titles, each of these books containing less than a hundred written words. One of her best-selling books is entitled 'The Book of Smiles' and it is a picture compilation of all the different smiles in the world! Can you do the same thing? Of course you can! Check it out at www.cindycashman.com

'Chicken Soup for the Soul' made its authors millionaires – yet all their authors did was to tell other people's stories!

After being rejected by 140 publishers as being un-saleable, Jack Canfield and Mark Victor Hansen managed to finally get Chicken Soup for the Soul published. It has gone on to sell over 80 million copies worldwide! Imagine, if they were to just earn a royalty of $2 a book, the authors would have earned over $160 million, and the cash is still flowing in. Did they have to be brilliant writers? No! In fact, they did not write anything other than the introduction. The rest of the book is made up of compilations of stories that they collected from other people. Can you do the same thing? Of course!

I Am a Best-Selling Author, Not a Best-Writing One

Have you heard of the mega best seller 'Rich Dad, Poor Dad?'

This book by Robert Kiyosaki has sold over 23 million copies worldwide. The author by his own admission is far from being a brilliant writer. He, Kiyosaki admitted that he had a darn good idea that other people could benefit from. So, he got a co-author Sharon Lechter, a certified public accountant who also had writing skills, to write the book while he narrated his ideas. His co-author's financial qualifications also lent the additional credentials Kiyosaki needed.

So, remember, when you have an idea, there is always a way. If you cannot even string two lines together coherently, just get a ghostwriter to write it for you and share a percentage of your profits with him. You can get great freelance writers at www.elance.com. Alternatively, you can use a software that writes the book for you. All you do is to speak into the microphone. One of the best voice-recognition software is 'Dragon Naturally Speaking'.

Cannot Come Up With a Unique Value Creating Idea?
It Does Not Matter…
You Can Get Wealthy By Scaling **Other People's** Marketable Ideas.

If you still feel that you lack valuable creative ideas, don't worry! There are many examples of people who have earned phenomenal income without having a single unique idea of their own. Their strategy is to scale other people's unique ideas. Here are a few examples:

Microsoft Did Not Create DOS

Microsoft did not invent MS-DOS from scratch, the operating system for personal computers. In 1979, Bill Gates bought the exclusive rights of QDOS (what MS-DOS was based on) for $50,000 from Seattle Computer Products and made billions by licensing the non-exclusive rights of the software to IBM & IBM clone manufacturers.

Ray Kroc Did Not Create McDonalds

Ray Kroc, founder of the McDonalds Corporation did not invent the McDonalds restaurant or its burgers. He was a mixer salesman who noticed that a small restaurant called McDonalds in California was creating tremendous value for its customers by selling high quality burgers and fries at the lowest prices. He saw the potential of scaling the value the McDonalds brothers had created by building thousands of duplicates all over the world. He convinced the two brothers to sell their restaurant to him for the paltry sum of $2.7m, which they did because they did not see the potential behind it.

Within six years, Kroc had set up 20,000 franchise outlets (which means other people came up with the money for each of these outlets) worldwide, earning him billions in royalties!

Jack Canfield & Mark Hansen Did Not Write Chicken Soup

As previously mentioned, Jack Canfield & Mark Victor Hansen did not write the stories in 'Chicken Soup for the Soul'. They got it from hundreds of contributing writers. They made over $160 million by publishing & selling over 80 million copies worldwide!

Think of Acquiring the License to Other People's Intellectual Property and Make Millions by Scaling their Ideas!

The great opportunity lies in the fact that most inventors, authors and creative thinkers are able to come up with brilliant ideas, but do not know about the concept of scaling! Even if they do know, most have got no idea how to go about it.

If you can discover some of these great ideas when the originators are still unknown and undiscovered, you can acquire the rights to the ideas for almost nothing, like when Bill Gates bought QDOS (MS-DOS) from Seattle Computer Products or when Ray Kroc bought McDonalds from Dick & Mac McDonald.

In fact, when the Cabbage Patch Dolls was first created, its creator was so keen to get it selling in the stores, the marketing rights were offered for almost nothing! Today, the rights to sell the dolls will cost you at least $380,000. So think about it... do you know someone who has got a valuable idea or skill but is not fully exploiting its value? Can you acquire the rights to the intellectual property and make your millions from developing it?

So, where can you get these great ideas from or where can you find inventors who sitting on goldmines? These are three main sources:

1. Search Patent Databases for Good Ideas

When an inventor creates something, he will usually protect others from copying his invention by patenting it. By going to the US Patent Office website at www.usto.gov, you can search for inventions that you believe have got lots of potential. Remember, many of these inventors have got no idea how to market and scale their invention commercially. If you can come up with a plan, they will be more than happy to give you the exclusive rights to bring their product to the world.

2. Search for Promising Authors & Experts

Look for best-selling authors and experts in different fields like health, learning, relationships, leadership and so on. If you see lots of potential in their ideas and they are not yet famous, get the exclusive licensing rights to create and distribute information products based on their value such as CD-ROMS, books, video & audio programs. You can source for these experts from best-sellers lists & specialty magazines.

3. Travel and Look Out for Great Product or Services that Have Yet to Be Discovered on the Global Market

There are lots of great ideas, products and services that are lying around the world waiting to be discovered by someone who can see the potential of scaling it. Many people have made their millions simply by taking an idea from one country and massively scaling it globally.

Here's a good example. Ken Kerr noticed some really cute, blue plastic figures in a toy show in Germany. When he brought them back to the US, it became a hit with the children he showed them to. He later acquired the rights to license and market the 'Smurfs' in the US. He went on to make hundreds of millions in licensing fees by re-licensing the rights to hundreds of US companies that manufacture toys, clothes, stationary and apparels.

Strategy #2 Magnify Your Value By Reaching More People at One Time

The second strategy you can employ to massively scale your value is by using the magnification approach. In short, reach a greater number of people all at once. Here are a few examples of how people can magnify their value...

a. Increase the Size of Your Audience

If you are a speaker, teacher, performer or artiste, think about how you can reach a larger audience at any one time. It's all about marketing and positioning yourself. For the same number of hours you work, you magnify your value creation! Remember the examples I gave you earlier about how a speaker like Tony Robbins can earn over $500,000 a day and how Lillian Too turns over more than $232,500 a day!

b. Magnifying your Services on the Internet

The internet is the most powerful medium that can be used by any computer literate person to magnify their value on a global scale. Never before in history has it been possible for the average person to tap into such a huge market... and for free too!

For example, a tax lawyer gives seminars over the internet once a week on 'Secrets of How to Minimize Your Taxes by Over 36%' and charges US$10 per participant to access his seminar. From over 200 subscribers each week, he creates an additional income of US$8000 per month.

Earlier, I gave an example of how Dr. Rajesh Shah from India was able to use the power of the internet to treat patients from over 112 countries, thereby magnifying his value. In fact, in the next section, I will share with you how to use the power of the internet to magnify and multiply your value!

c. Magnifying Your Value through the Mass Media

Have you ever wondered how actors can get paid over $20 million for one movie or how each star on Friends can get paid $1 million an episode? Or how Oprah Winfrey can accumulate over $1.3 billion by just chatting with people and sharing their ideas? All of them

use the power of the media to magnify their value. For example, an actor spends twelve months acting for a movie but the movie is watched by forty million people, each paying $10, that is how the actor can get paid millions for his role.

You don't have to be a good looking, talented actor or artiste to achieve this magnification! Again, you can do this in any profession. A good example is Asian Chef Martin Yan. He came out with the great idea of teaching people how to prepare yummy Chinese food in their kitchens in a quick and easy way. His TV show, 'Martin Yan Quick & Easy' reaches out to millions of households in 50 countries, magnifying his value and his wealth! Check him out at www.yancancook.com.

d. Magnifying the Value of Company Shares through Listing

How do people make hundreds of millions within a couple of years? By listing their company on the stock exchange, business owners are able to see the value of their shares & wealth magnify by twenty times or more. Most recently, Larry Page & Sergey Brin who each own 13% of Google saw their wealth magnify to $6 billion when Google was listed on the NASDAQ stock exchange.

Strategy #3 Earn Recurring Commissions from Sales or Referrals

The third strategy is to multiply your value by earning recurring commissions from sales and referrals. This involves being paid multiple times for a single sale effort.

In certain industries like insurance & network marketing, the recurring commission system is in-built into the compensation scheme. For example, when an insurance agent sells an insurance policy, he gets paid a commission. However, insurance agents get paid additional renewal commissions for the next five years whenever their client pays their annual premiums. Although they close the sale once, they get paid over and over again for the same effort. As a result, their efforts are multiplied!

a. Real estate agents earn referral fees from law firms, interior designers, architects, insurance companies & banks.
b. Insurance agents earn recurrent incomes from insurance policies and overriding commissions from down lines.
c. Auto salespeople earn referral fees from banks, car accessory shops & insurance companies.
d. Law firms and accountants earn referral fees from each other.
e. Auto repair shops earn referral fees from insurance companies or vice versa.
f. Network marketers earn recurrent commissions for products re-ordered & overriding commissions from down lines.
g. Website owners receive advertising revenue from advertisers through Google Adsense.
h. Website owners receive affiliate commissions for recommending products/services from other sites.
i. Business owners earn additional income by selling & re-selling their database to other business with similar clients (legally of course).

In other professions, you can get recurring commissions by referring your clients to related partners. For example, as a real estate agent you get your direct commission from the sale of the house. However, you can get recurring commissions from interior designers, banks (mortgage), architects, construction firms and lawyers whose services you recommend to your client. Here is a list of examples...

Strategy #4 Earn Profits, Dividends & Royalties from Businesses

The fourth strategy is to use the power of a business to multiply your value! When you work as an employee or are self-employed, there is always a limit to how much leverage you can create from the time you spend at work. You are constantly selling your personal time for money. Unless you physically spend time, the income stops.

When you build a business around your value, you will be able to provide your services to more and more people, without your physical presence. You literally multiply your value.

As a self-employed trainer, I could only physically conduct one seminar at a time, and train a maximum of 5,000 people a year. By building Adam Khoo Learning Technologies Group and training other trainers to deliver the same seminars, I am able to hold ten seminars concurrently, in five different countries, reaching out to ten times more people a year. As a result, my value and wealth are multiplied many fold. Specifically, your multiplication effect comes from...

a. Profits and dividends from building a business system

For example, a great Math teacher decides to start a tuition centre and hires teachers whom he teaches his winning techniques to. Instead of teaching ten people a year, his business now trains five hundred a year. Besides a CEO's salary, he gets hundreds of thousands in profits from each of the centres that open. Again, this can be done by turning any profession, whether it is real estate, hairdressing, legal services, medical services or teaching into a scalable business.

b. Business Owners Open More Outlets, Creates More Profits

The more outlets and branches you open, the more your value and wealth is multiplied.

c. Business Owners Create Wider Range of Products Using Brand Extension

Besides building more branches, another strategy is to keep adding related products and services to your current range. By cross selling to current customers, you again multiply your value.

d. Royalties from Franchising your Business Name & Business Model

If you don't have the money to build more branches, you can franchise your company's brand and business processes to hundreds of franchisees and collect hundreds of thousands in royalties each year.

e. Earning profit sharing from your company

Even if you are not an entrepreneur, you can still experience multiplication of your value by getting on a profit sharing program from your company. Again, if you are a significant value creator, have the confidence to ask for a share of the company's profits.

f. Marketing, Advertising & Management Consultants Get a Percentage of Profits from Clients

Professionals or business-to-business firms can also earn recurring income streams by charging a percentage of profits from their clients rather than a higher fixed professional fee.

If you find that you are in a fulltime job and do not have the money & time to build a business, then in the next section, you will learn how you can make a fortune by building an online business from home.

So there you have it! Four major strategies that anyone can use to massively boost their income.

How Do I Increase the Scalability of My Value?

After reading the many authentic and inspiring examples I have given you, I'm sure you cannot wait to get started on all the strategies you can use to start building multiple streams of income for yourself.

I want you to take at least thirty minutes to brainstorm all the strategies you can use immediately to add the scalability factor to your income!

As you are thinking of all the strategies, think, 'How can the value I create make an impact on many more people? How can I multiply or magnify the effect of every hour of work I put in? How can I do something once, and be paid over and over again?' Go ahead and do this now!

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In the next section, you will learn specifically how people from all walks of life and all professions have used the power of the internet to massively magnify their way into making thousands of dollars from several income streams.

CREATING MULTIPLE STREAMS OF INCOME ONLINE

section IV

chapter 9

Building a Lucrative Business Without Quitting Your Job

For even more valuable resources visit www.internetmarketingsingapore.com

In the last chapter, you learnt that if you want to massively increase your income, you have to magnify and multiply your value. Only by doing so can you create multiple streams of income.

The best way to achieve this is to start a business based on your passion... meaning what excites you will drive you. I believe that anyone who wants to accelerate their way to financial freedom and abundance must start a business that will generate additional income streams.

'But... wait! How can I start a business when I have a full time job?' 'I can't risk my steady paycheck!' 'My boss wouldn't allow it!' 'I just don't have the time or the capital!' 'What if it fails?' 'I can't afford to lose much money.' These are the most common concerns that people have and it is precisely these self-imposing limitations that keep them trapped in the rat race – from office to grave.

While it does take a lot of time, money and risk to start a traditional brick-and-mortar business, it is a lot easier and potentially just as (if not more) lucrative to start an Internet business.

The great news is that we live in a time where never before in living history has been easier to start a business and to make millions of dollars within a few short years! It is actually a lot easier to become rich today than it was twenty years ago. Just look at the statistics!

Every year, it is reported that the number of millionaires and billionaires are increasing exponentially every year and they are getting richer. What's more... they are achieving it at a younger age and from all social backgrounds too! Why is this possible? It is because technology and the advent of the Internet have bridged the gap between people of all backgrounds. In the past, we were in

the industrial age where most products being sold were physical in nature. To start a company, you had to have lots of capital to build factories, buy raw materials, hire numerous workers, do extensive research and wait at least three to five years to breakeven and then hopefully see a profit.

Today, we live in the information-technology age where it is bad news for employees (you could get retrenched anytime past forty years of age once you become obsolete) but great news if you want to become an entrepreneur.

Today you can start a business without an office, with no employees, no raw materials and still make millions! All you need is a great idea and you can then use the power of the Internet to take on the big boys and reach out to a billion dollar market worldwide. Why?

Because the hottest selling product today are information-based products like specialized knowledge, software and technology which can be delivered instantly online! And you can easily start this lucrative business part-time, from home, while still keeping your full time job. Isn't it time you learnt how to take advantage of this fantastic opportunity and become an entrepreneur today?

To summarize, let me draw a direct comparison between a traditional brick-and-mortar business and an Internet business. In a traditional business, your full time presence is required but in an Internet business, you could run it part-time from home with just two to three hours a day dedicated to it. In a traditional business, there is usually high startup and overhead costs. In an Internet business, it is relatively cheap to operate. As a result, the cost of failure is much lower. If it doesn't work out, just start a new business, with new products in a different niche.

In a traditional business, your market is restricted to your region or country. With an Internet business, your market is the world of 935 million Internet users and this number is increasing exponentially every single year. Just think! If you have a great product or service and you were to capture just one percent of this market, you would have 9.35 million customers. If each customer were to spend even $1 with you, that's $9.35 million! This is the power of

scalability. This is how Lillian Too, Dr. Rajesh Shah, Bert Ingley and many others I mentioned in the last chapter made their fortune. Isn't it time you start tapping into this well of unlimited wealth?

And, I'm not done yet. Let me tell you of more great advantages! With a traditional business, you earn money in your own currency and have to wait between thirty to sixty days for payment. With an Internet business, you earn your money in US dollars and payment is instantaneous.

In a traditional business, you need lots of money to be a big player. You need to have huge offices or factory, hundreds of staff and spend millions on advertising to make an impact and capture market share. On the Internet, you could be a 'nobody' with little money and still create a presence. Why?

Because online, you are judged by the quality of your ideas, your creativity and your ability to capture the heart and mind of surfers. They have got no idea who is behind the webpage so you are not judged by your looks, age, qualifications or any of those attributes that don't really matter.

Traditional Business	Internet Business
• Requires a full time presence and commitment. • High startup, overhead costs & running costs. E.g. rental, staff salary, inventory, advertising. • Small local market. • Earn local dollars. • Usually takes 30-60 days to receive payment. • Need to be a big player with big money to capture market share. • Judged by your age, sex, looks etc... • One-dimensional marketing. • High cost of failure. • Mass marketing. • Limited to the business week and business hours.	• Easily set up and run while still holding on to a full time job. Just 2-3 hours a day. • Relatively cheaper to operate. • Global marketplace of 934 million, growing exponentially every year. • Earn US Dollars. • Receive payment almost instantaneously. • Can be a 'nobody' with little money and still create a strong presence. • Judged by the quality of your ideas. • Interactive & Multimedia marketing. • Low cost of failure. • Intimate, one-on-one marketing. • Business is open 24 hours, 7 days a week. You make money while you sleep.

Are you excited yet? I know I was when I first learnt how to use the Internet to massively increase my wealth. Still, I am sure that there are a few 'buts' popping off in your head. They are probably the same concerns and doubts I had when I first started learning about Internet businesses. However, when I started to discover so many ordinary individuals making extraordinary income, many of them my friends, I realized that it is not just a passing big fad, the internet is indeed a powerful medium for anyone with enough passion, commitment and hard work to make lots of money. However, before we learn how to turn our ideas into profits, it's important that I dispel some common myths that people hold about Internet businesses.

Myth #1 Making Money Online is Just A Big Hype

In the late 1990s, everybody believed that the Internet would take over every traditional medium like TV, radio and newspapers so everybody started an Internet business (known as dotcom at that time). Investors, driven by greed, started throwing millions of dollars at any business that had a dotcom behind its name. Many of these were actually poorly conceived businesses that had poor business models, substandard products and though these dotcom ventures did not earn a cent in profits, they were being valued at hundreds of millions of dollars just because of the hype.

Sure enough, when the euphoria died down and many investors realized that their investments could not make a dollar, the whole technology stock market crashed and people lost everything. Since then, there are still many people who hold on to the belief that Internet businesses are a big hype.

What most of these people don't realize is that while many of those dotcoms businesses were indeed hype, there are many Internet businesses today with good products or services and a strong business model that makes anything from thousands of dollars to millions of dollars of profits. Some, like EBAY (profits of $778 million), Google (profits of $100 million), Amazon (profits of $588 million) are run by hundreds of staff while some are run by individuals like Rosalind Gardner (profits of $437,000+), Bert Ingley (profits of $137,000+) and Aaron Ang (Profits of $60,000+) from their home. And I will give you many other examples of individuals who make hundreds of thousands of dollars in profits every year from their online business.

Myth #2 Running An Internet Business is Easy

One reason people fail at building a profitable Internet business is because they think that it is dead easy. They believe that all you have to do is to build a website, stick pictures of products on it and wait for millions of people to come and buy.

The truth is that there is no such thing as easy money. Building a profitable Internet business takes time, commitment and hard work. You must have a good business plan, source for products/services of high value that serve a real need, make your site competitive and continuously attract paying customers through marketing.

However, the good news is starting and running an Internet business is relatively much easier than a traditional business because you have lower startup costs, overheads and no employees. You can again, run a successful home business with just three to four hours a day (versus twenty hours a day in a traditional business).

Myth #3 You Can Make Lots of Money Fast

This is another wrong belief that drives people to fail in their online business. When people think that they are going to rake in thousands of dollars in a few months for little effort, they invariably get sorely disappointed, impatient and give up.

The truth is that it takes time to fine tune your site, attract your niche market, build a relationship with your customer base and get them to start buying. Initially, you may only get a few hundred a month then, as you get more and more customers, it will grow over time into thousands, tens of thousands and eventually hundreds of thousands. But think of it this way: if you make just $500 a month from your Internet business and start three of these businesses, you would be making US$1,500 a month. If you are currently earning $40,000, that would already be a 40% increase in income!

However, the good news is that you make profits in an Internet business comparatively much faster than in a traditional business. In a traditional business, there are a lot more start up and operational costs involved and it takes more time to breakeven. In addition, it takes more time to collect money from your customers in the brick and mortar world.

Myth #4 Starting an Internet Business is Free

To build any good business, there is always a need to invest some money. It always takes some form of investment in time and money to generate a return. Successful Internet entrepreneurs are willing to invest anywhere from several hundred dollars to a few thousands dollars into research, advertising, software and in their own education.

However, it is again comparatively much cheaper than running a brick and mortar business where you need tens and hundreds of thousands of dollars.

Myth #5 The Internet is Saturated with Websites. There is No Money Left to be Made

Many people have this belief that there are so many websites around selling so many things that there is no chance to make any more money online. While it is true that there are millions of websites selling everything under the sun, there are even more traditional businesses selling everything you can possibly think of. There are establishments selling food, clothes, toys, accessories, furniture and electronics everywhere around us. Does this mean nobody can ever make money in business anymore? Of course not! You can still make huge profits in business if you find a niche market and provide a unique and needed product or service combined with savvy marketing.

The fact is that although there are millions of websites around, most of these website owners peddle inferior products and have no clue about marketing. Therefore, most of them are running poor businesses. With the invaluable strategies and resources you will learn in the next few chapters on how to run a successful business online, you should have no trouble capturing market share and making streams of profits.

The Five Criteria for a Profitable Home-Based, Online Business

So, what makes an Internet business profitable with the millions of websites around? You will find in fact that many of these factors hold true for traditional business as well. They are very much common sense reasons but vital factors that many intelligent people fail to follow. So here they are...

1. Strong Demand for the Product or Service

There is nothing worse than creating a product and finding that nobody is interested in buying it, or that you have so few customers that it is not even worth your while. Many people also sell stuff online that people can easily find down the street and at the shopping centres.

Instead, you must first find an area where there is already a high demand for a particular product or service, an urgent problem that millions of people will pay to solve, then find and create that product/service that will get them buying immediately. So, how do we find a niche market where there is strong demand? You will learn this in the next two chapters so stay tuned.

2. Ideally No Inventory

An Internet business that requires you to carry inventory will probably need you to fork out cash to buy stock, worry about where to store the goods and arrange for shipment. While you can indeed make lots of profits from inventory related business, it is a lot of work... especially if you are holding a full time job!

You may want to go for businesses where the product or service is digital in nature (immediate delivery) or where you have a manufacturer & distributor who takes care of the storage and shipping for you. The best kind of Internet business is one where you don't even have to physically handle the product you are selling. Again, you will learn how to find and create these products in the coming pages.

3. Low Startup and Running Costs

There are many successful Internet business that require hundreds of thousands of dollars to set up and as well as an office full of staff to run it, like Google, EBAY, Yahoo! and Amazon.

There are however many super profitable businesses you can set up for less than $1,000 and you can run from your home. In fact, even if you did have a couple of hundred thousand, I suggest you keep it. When we have less money to start with, it forces us to be more creative and more careful with how we spend each dollar, two very important elements to running a successful business.

4. Global Reach

The next criteria is ensuring that your website and its products/service are targeted to the world, and not just your home country. When you sell a product specific to only one country, the market will be too small to make your venture profitable. This is especially if you have a very niche product like selling rare Star Wars collectibles. The good thing about selling to a very niche market is that it is a lot easier and cheaper to advertise and dominate that market, thereby setting yourself as the market leader. When you target the worldwide base of 935 million Internet surfers (and growing), even a niche product like 'How to Train Your Pet Iguana' will bring in hundreds of customers with thousands of dollars in profits.

5. Products Have High Margins

Finally, you must sell a product where you can earn high profit margins. When profit margins are low, you will not be able to spend much money on advertising and software both of which are necessary to increase your rankings on the search engine. Low profit margins also mean that you have to sell a lot more products to make the same profit.

In the next chapters, you will learn how to create or find products with the highest margins. In fact, information products have the highest margins. For one thing, the cost of duplication and delivery is free. Plus information products carry a high perceived value that

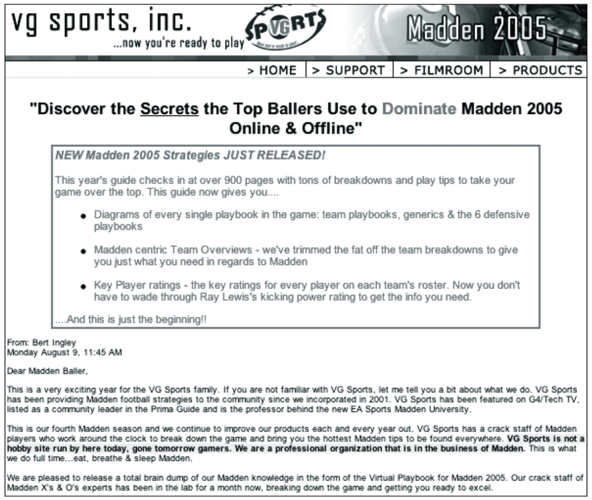
allows you to command a high price. This is why I love information products like eBooks, software, DVDs & CDs. They cost cents to make and sell for hundreds of dollars!

Successful Individual Home-Based Internet Entrepreneurs

Before we dive into the mechanics of how to get your Internet business started, let me introduce you to some men and women who run their highly successful Internet business from home.

Bert Ingley of www.maddentips.com

Bert Ingley makes US$187,000 a year teaching people how to play video games. Bert sells an ebook (US$19.95) teaching gamers the secrets and strategies of how to win at Madden NFL, a sports video game.


vg sports, inc.
...now you're ready to play
Madden 2005
> HOME > SUPPORT > FILMROOM > PRODUCTS

"Discover the Secrets the Top Ballers Use to Dominate Madden 2005 Online & Offline"

NEW Madden 2005 Strategies JUST RELEASED!

This year's guide checks in at over 900 pages with tons of breakdowns and play tips to take your game over the top. This guide now gives you....

- Diagrams of every single playbook in the game: team playbooks, generics & the 6 defensive playbooks
- Madden centric Team Overviews - we've trimmed the fat off the team breakdowns to give you just what you need in regards to Madden
- Key Player ratings - the key ratings for every player on each team's roster. Now you don't have to wade through Ray Lewis's kicking power rating to get the info you need.

....And this is just the beginning!!

From: Bert Ingley
Monday August 9, 11:45 AM

Dear Madden Baller,

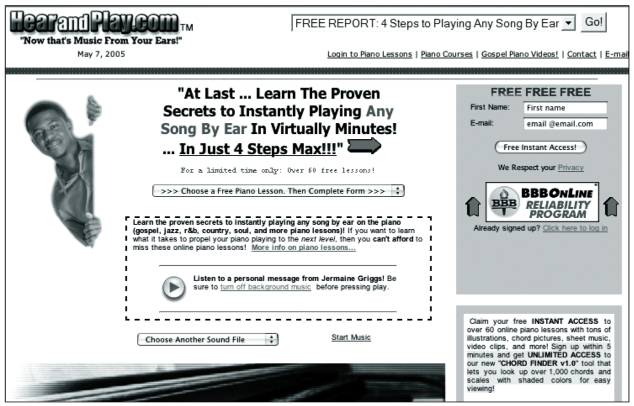
This is a very exciting year for the VG Sports family. If you are not familiar with VG Sports, let me tell you a bit about what we do. VG Sports has been providing Madden football strategies to the community since we incorporated in 2001. VG Sports has been featured on G4/Tech TV, listed as a community leader in the Prima Guide and is the professor behind the new EA Sports Madden University.

This is our fourth Madden season and we continue to improve our products each and every year out. VG Sports has a crack staff of Madden players who work around the clock to break down the game and bring you the hottest Madden tips to be found everywhere. **VG Sports is not a hobby site run by here today, gone tomorrow gamers. We are a professional organization that is in the business of Madden.** This is what we do full time...eat, breathe & sleep Madden.

We are pleased to release a total brain dump of our Madden knowledge in the form of the Virtual Playbook for Madden 2005. Our crack staff of Madden X's & O's experts has been in the lab for a month now, breaking down the game and getting you ready to excel.

Jermaine Griggs of Hearandplay.com

Jermaine Griggs makes up to US$9,900 a week online teaching people how to play the piano by ear through his home study music course which he sells at US$69.95 complete with videos, CDs and workbooks.

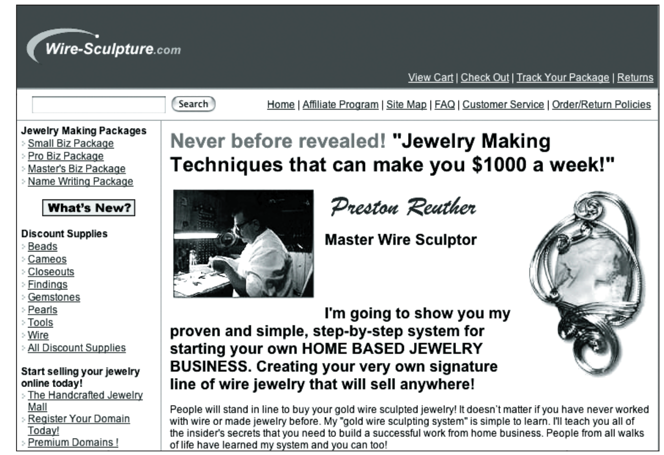


Rosalind Gardner of Sage-hearts.com

Known as one of the best affiliate marketers around, Rosalind Gardner makes US$436,797 a year by reviewing and earning commissions from online dating sites. You can even view her income tax statements at www.superaffiliatehandbook.com.

Preston Ruther of www.wire-sculpture.com

Preston sells an instructional course (videos, manual & accessories) on how to make homemade jewelry for US$125.95.

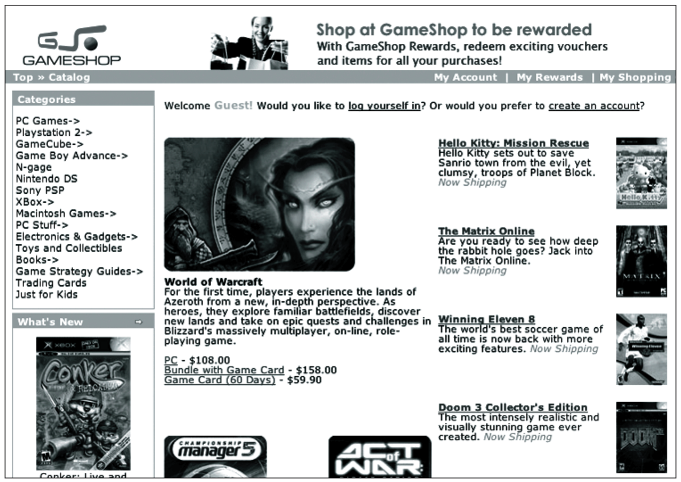


Cherie Hammer of www.cuddlebugbaby.com

Cherie Hammer was a homemaker who wanted to make some extra money by selling baby blankets online. It became so successful that she makes a six-figure income a year selling baby related clothes and accessories.

Aaron Ang of www.gameshop.com.sg

Aaron makes about S$5,000 a month selling video games to Singapore, Australia, New Zealand and Malaysia.



As you can see, these dynamic men and women have created profitable online businesses selling everything from jewelry making courses to baby blankets. As long as there is a market out there for your product/service, you can find it and sell it to them. So, what's stopping you from launching your very own home-based online business? Absolutely nothing. Let's get started by learning...

chapter 10

Turning Your Passion into Lifetime Streams of Income

For even more valuable resources visit www.internetmarketingsingapore.com

In the next three chapters, you will learn the ten major steps to build a highly profitable online business from home. It is of course not possible to cover every single activity in detail but don't worry, I will be giving you enough information to enable you to start your venture with confidence. I will also point you towards the best resources to further your online business education.

The reason why some Internet businesses fail is because their owners do not treat them as a business. They treat their venture as just a hobby which they tend to when they have the time. They think that by just building a website and sticking a bunch of pictures of products with prices will bring sales in. In fact, building a profitable online business follows the exact same principles as building any kind of business! It takes careful planning, commitment and consistent action!

You must understand your target market's needs, perform competitive research, source for the best products of the highest value, apply strong marketing, manage your cash flow, have a system to process payment and build a relationship with your customers. Wow! This may seem like a lot of work. Well, it is! But again, it is much easier than starting a brick-and-mortar business. Everything that you must do to get your business to take off and become a cash generating machine is organized into ten major steps. They are...

Step #1: Identify Your Passion & Expertise
Step #2: Find a Hungry Niche Market
Step #3: Size up the Competition & Profit Potential
Step #4: Find or Create Products and Income Streams
Step #5: Design & Build Your Website
Step #6: Write Powerful Sales copy that Converts Leads to Sales
Step #7: Set up an Order & Payment System

Step #8: Draw Customers to Your Site
Step #9: Create an Opt-In List of Customers
Step #10: Build a Relationship with Your Customers Until They Buy

Let's get started learning the essentials of each step now!

Step #1 Identify Your Passion & Expertise

If you want to be successful in any business, you have got to start one around your passion and your expertise.

In every market where there are so many businesses competing, only the best make a sizeable profit. How do you become the best in the market? The answer is by being totally, absolutely one hundred percent committed about your particular business. The only way this is possible is if you have a natural love and passion for it (Millionaire Habit 5). As earlier mentioned, all successful individuals share one thing in common. That is, they love and are obsessed about what they do.

Know that the main reason people come online is not to buy a product or a service, but to look for information to solve their problems or achieve their goals. By focusing on an area of passion and expertise, you will be able to talk passionately about the topic and position yourself as the expert! You will be able to offer something better than what competing online businesses are offering because you know the topic so well.

Once people feel you are credible and they benefit from your (initially) free information, they will then be willing to pay to get more value from you. In the last section, we said that your income is determined by the value you create. I believe that all of us have an area in our lives where we create the maximum value and as a result can potentially earn the maximum income and satisfaction. For example, I create maximum value by writing motivational and instructive books and speaking (it's what I love to do and I am pretty good at it).

So, let's begin by finding out **your area** of maximum value. What do you love to do and what are you naturally good at? What is your area of natural expertise? Remember, as long as you love something, there is always a way to commercialize and scale it into

thousands of dollars of income streaming in. In the last chapter, you saw how some successful home-based entrepreneurs built their business around their passion of dating, playing video games, knitting, making jewelry, playing music and so on...

So, I want you to spend at least fifteen minutes brainstorming and writing down all the hobbies/interests/causes that you feel passionate about and what you believe you are pretty good at doing. Below are a few questions to help you get thinking...

What are you interested in? What are you passionate about?
What subjects or topic areas do you have knowledge about?
What websites do you surf around in your free time?
What are your hobbies? Knitting? Origami? Animals? Plants?
Do you have any kind of specialized information?
Martial arts? Sailing?
Do you collect anything? What kind of music do you listen to?

Here are a few popular categories to help you along

• Accessories	• Education	• Recipes
• Arts & crafts	• Entertainment	• Relationships
• Auto buying	• Financial services	• Romance
• Auto mechanics	• Furniture	• Sewing
• Beauty & cosmetics	• Food & drinks	• Self-improvement
• Books & media	• Marketing	• Music
• Child development	• Gardening	• Pet care
• Computers	• Gambling	• Productivity tools
• Coaching	• Games & toys	• Parenting
• Cooking	• Gifts and flowers	• Sports
• Clothing & apparel	• Health & fitness	• Shopping
• Careers	• Home business	• Skin care
• Dating	• Home buying	• Software design
• Decorating	• Internet business	• Teenagers
• Divorce	• Legal	• Traveling
• Dog training	• Medical	• Web design & services
• Nutritional supplements		• Weight loss

Once you have identified a number of potential topic areas you can build your business around, you can then move on to step two.

Step #2 Find a Hungry Niche Market

The reason people fail in business is because they find a so-called hot product that they think will sell and they try to sell it to everybody. This strategy is guaranteed to fail. Instead, you must first find an existing market that is hungry and willing to buy. Find out what they want to buy and go find or create the product to sell to them. This is the strategy for business success!

In step two, you must find a hungry niche market that is related to your passion and expertise in which you identified in Step One. The first thing to take note of is that it must be a 'niche market' not a 'general market.' For example, a general market would be 'health products' while a niche market would be 'weight loss health supplements'.

Why should we go for a niche market? A niche market is easier and cheaper to dominate, as it is easier to position yourself as the best in that particular category and cheaper to advertise in. Many businesses fail because they attempt to capture a big market like 'health products' and they get beaten flat by more established players with a bigger range, expertise and advertising budgets.

There are three things you have to find in Step #2. They are:
a. Find a niche market related to your topic of interest
b. Ensure sufficient interest and demand
c. Identify a problem to be solved or unmet needs.

a. Find a Niche Market Related to Your Topic of Interest

Under your general topic of interest, identify the niche market that you want to go for. For example, if 'golf' is your passion, then the various niche markets could be 'golf accessories', 'golf books', 'golf courses for kids', 'golf clubs', 'drivers', 'golf apparel', 'golf swing aids', 'golf swing instructions', 'golf lessons for beginners', 'golf lessons for professionals', etc...

If 'health' is your area of interest, it could be further focused into 'alternative health' also known as 'natural or holistic health' which could again be focused into 'yoga', 'reiki', 'meditation', 'herbs', 'therapeutic massage', 'natural health supplements' and so on. Again, the more niche you go, the easier it is to position yourself as the top in that category.

The great thing about the Internet is that your market is so big (935 million surfers) that even if you chose a very niche market like 'training your parrot to talk', there will be enough customers to make you rich. In fact, parrot lover Nathalie Roberts is successfully selling a set of four ebooks for US$79.95 on 'How to Train Your Parrot to Talk' at www.parrotsecrets.com

Now, if you are stuck thinking of the various niche markets you can focus on, a great resource site to visit is http://inventory.overture.com. At this site's 'Key Selector Tool', you can key in a keyword or phrase and it will generate for you all the related keywords and phrases. In the example below, when you key in 'golf', the website will generate for you related topics like 'golf club', 'golf cart', 'miniature golf', 'golf vacation', 'golf swing', 'golf school' etc... So should you choose 'golf swing' or 'golf equipment'? Well, it depends on your preferred business model.

If you choose golf equipment, then you are going to have to sell a 'physical product' which may require inventory and shipping. If you choose 'golf swing', then you could sell an information product, which could be digital in nature. For the purpose of illustration, we shall pick 'golf swing'.

Screen Capture of the Key Selector Tool at http://Inventory.overture.com

Keyword Selector Tool

Not sure what search terms to bid on?
Enter a term related to your site and we will show you:

- Related searches that include your term
- How many times that term was searched on last month

Get suggestions for: (may take up to 30 seconds)

golf

Note: All suggested search terms are subject to our standard editorial review process.

Searches done in September 2005	
Count	Search Term
661916	golf course
613899	golf
229521	golf club
89781	golf cart
81267	miniature golf
64565	golf vacation
56015	golf ball
48649	golf channel
45743	golf school
45132	golf shirt
43498	las vegas golf
43260	link http discount golf club and equipment.com
38756	arizona golf
35189	golf equipment
33762	ireland golf vacation
31932	golf gift
31854	callaway golf
31816	mini golf
30542	golf resort
27909	ping golf club
27512	golf store
24783	golf equipment supply
22726	golf tip
22477	golf bag
22117	used golf club
20500	golf shoes
20461	golf game
19264	golf course public
18650	golf swing
18646	nike golf
17939	discount golf

b. Ensure Sufficient Interest and Demand

There is no point picking a niche area you love only to find that there are not enough potential customers who are interested to buy. Another reason why businesses fail is because they focus on an area where there is insufficient demand.

As a rule of thumb, you have to ensure that the niche area you pick has at least 50,000 searches done on it per month to be profitable. If you look at keyword selector tool above (http://inventory.overture.com), the tool gives you the number of searches on that particular keyword in the month of September. From the tool, you can see that there were 18,650 searches on 'golf swing'. Does that mean that the market is not big enough? No! You have to remember that there are many people who may be interested to improve their golf swing but who use different related keywords and key phrases to search for the information. To find related keywords to 'golf swing', just click on the keyword and the selector tool will give you all the related words as shown below.

Screen Capture of the Key Selector Tool at http://Inventory.overture.com

Searches done in September 2005	
Count	Search Term
18650	golf swing
2273	golf swing tip
2070	perfect golf swing
1709	2nd swing golf
1597	golf swing trainer
1256	second swing golf
1066	proper golf swing
1004	how to swing a golf club
927	golf swing video
854	golf swing analyzer
782	improve golf swing
768	tiger woods golf swing
729	golf swing training aid
717	golf swing plane
708	golf swing instruction
703	golf swing speed
614	one plane golf swing
608	golf swing mechanics
593	free golf swing tip
557	biomechanics of golf swing
528	golf swing picture
485	natural golf swing
483	pro golf swing
454	golf swing aids
450	golf swing training aids
424	golf swing training
419	full swing golf
398	free golf swing video
384	golf swing technique

So, people who want to learn how to improve their golf swing are searching for this niche topic by using phrases like 'golf swing tip', 'perfect golf swing', 'proper golf swing', 'how to swing a golf club', 'golf swing instruction' and so on. If you want even more words, you can check out a more sophisticated keyword tool at www.wordtracker.com. So, you can see by adding up the total number of searches around the golf swing topic, you would have over 50,000 searches a month.

c. Identify a Problem to be Solved or Unmet Needs

Now that you have ascertained that there is a sizeable niche market of people who want to improve their golf swing, you must find out what specific problems they want to solve. Or it could be needs that they are looking for solutions to. People will only be willing to pay you if you can help them solve a problem or achieve their goals better than other competitors. What unmet need can you fill that existing competitors are not filling?

You can find out your target market's needs by joining online news groups and observing what people talk about. For example, if you go to groups.yahoo.com or groups.msn.com and join 'golf groups' you may observe that many golfers out there want to cure their slice (hitting to the right) or hit the ball further.

You can also check out how your competitors are positioning their products. Enter 'golf swing' under a major search engine like 'Google' and visit websites that are also selling 'golf swing products'. Many of them focus on helping golfers cure their slice and get more distance from their shots. When you know that this is a major problem golfers want to solve, you can use it as one of your selling points! Again, the ideal would be to identify a need that is currently not being adequately met by products already in the market.

Step #3 Size Up the Competition & Profit Potential

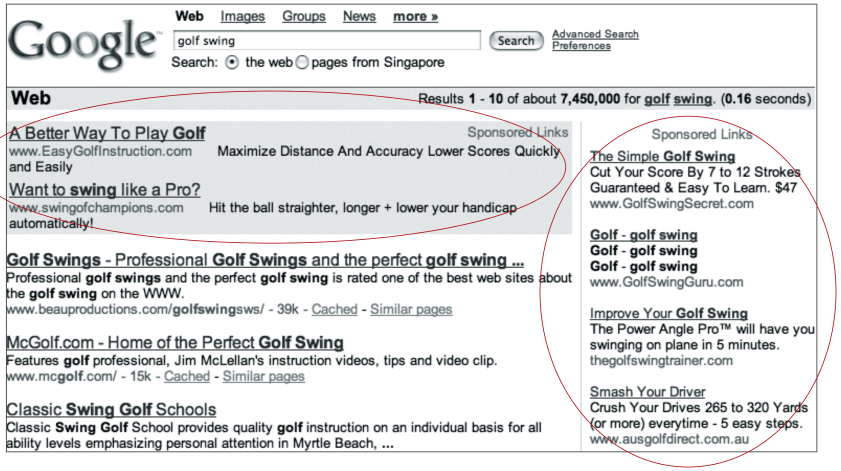
In this next step, we must check out the competition and the profit potential of your chosen niche market. More specifically we need to (a) size up the competition, (b) find the maximum bids on keywords, (c) find keywords that have high demand and low competition and (d) calculate the profit potential of the market.

a. Size Up the Competition

In order to capture market share and dominate your niche market you must find out how many competitors you have and exactly what they offer. You must find out what's good and bad about their products, what price they charge, how they do up their website and their marketing techniques. The best way to find out is to buy your competitors products and become one of their customers. Then, you must ensure that you do everything better, add more value and you will succeed!

Go to the three major search engines, namely Google, Yahoo! and MSN and type in 'golf swing' and related keywords and you will be presented with a whole list of relevant websites. As you can see below, Google's search results turn up 7,450,000 websites. Are all these your competitors? Of course not, so don't worry. Not all of them would be selling 'golf swing' enhancement products. Some of them are just information sites. The serious competitors are usually those who pay to advertise. See those sponsored links at the right-hand side and those highlighted at the very top? You have to check them out. At the same time, you need only check out the websites on the first two pages (top 20 listings). The reasons? 90% of surfers never click beyond the top 20 searches.

Screen Capture of www.google.com



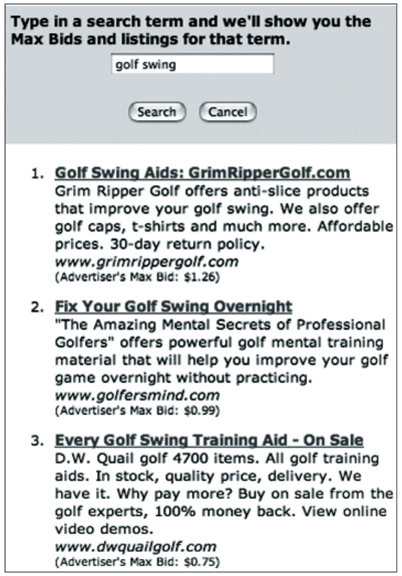
Having a number of competitors is good news. It means that there is a market willing to pay for this product. However having too many competitors is bad news as it would mean intense competition.

b. Find the Maximum Bids on Keywords

Now, how much do you think your competitors have to pay to advertise on search engines like Google, Yahoo! and MSN? Well, they all pay a different price depending on where they appear. Those that appear higher up on the page would pay more. Advertisements are normally charged on a pay-per-click (PPC) basis.

In other words, every time someone clicks on their advertisement link and enters their webpage, they have to pay a price! This price is determined through a bidding process. As a result, very popular keywords could be bid up to a high of $6.00 per click while less popular keywords may be only worth $0.01 per click.

Screen Capture of www.pixelfast.com/overture



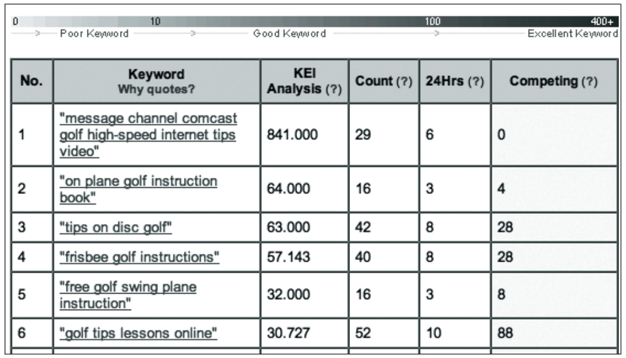
It is important that you find out the maximum your competitors are willing to pay per click. To find out, go to www.pixelfast.com/overture. Here, key in the keywords that your customers will use to search for your niche topic. In this case if you key in 'golf swing' you can see that the maximum bid is $1.26 per click. A high PPC indicates that the topic you have chosen is a high value niche, so it shows that there is good profit potential. However, the good news is that you don't have to pay $1.26 to get customers to your website, they are many other cheaper alternatives!

c. Find Keywords that Have High Demand and Low Competition

As mentioned earlier, you do not have to pay $1.25 per click for highly competitive keywords like 'golf swing' to attract visitors to your site. There are many related keywords that potential customers use that your competitors may not be aware of. These are known as high demand-low competition keywords. They are measured by what is known as a KEI (keyword effectiveness index).

A low KEI of '10 or below' means that it is a very competitive keyword relative to the search demand. A high KEI of '10 to 100' means that these keywords are popular with your target market but not being used by your competitors. You would want to advertise using these high KEI keywords that still bring in traffic!

Screen Capture of www.wordtracker.com



No.	Keyword Why quotes?	KEI Analysis (?)	Count (?)	24Hrs (?)	Competing (?)
1	"message channel comcast golf high-speed internet tips video"	841.000	29	6	0
2	"on plane golf instruction book"	64.000	16	3	4
3	"tips on disc golf"	63.000	42	8	28
4	"frisbee golf instructions"	57.143	40	8	28
5	"free golf swing plane instruction"	32.000	16	3	8
6	"golf tips lessons online"	30.727	52	10	88

The more of these high KEI keywords you find and use, the more cheap traffic you can buy through advertising. So how do you find theses high KEI keywords? Go to www.wordtracker.com and you can start by using their free trial. Simply use this tool to search for all the related keywords to your topic and put them into the Wordtracker 'basket' and it will indicate to you the KEI of the various key phrases. In this case, key phrases like 'on plane golf instruction book', 'golf tips lesson online', 'free golf swing plane instruction' have few competitors but have relevant searches done by potential customers. Again through time and research you will be able to build a list of a hundred keywords and phrases or more.

d. Calculate the Profit Potential of the Market.

So, how do you know the potential profit you can earn from your Internet business? A great tool I use is a 'Profit Potential Formula' calculator. It is a Microsoft Excel template and can be downloaded for free at www.adam-khoo.com under 'My Business & Money Making Tips'. First, enter all the keywords and key phrases that are related to your topic. How many should you enter? The more the better. Using the Inventory Keyword Selector Tool and the Wordtracker tool, you may want to build a list of a few hundred related keywords and phrases.

Internet Business Profit Potential Formula

KEY IN THE VALUES IN RED

Gross Profit Per Unit $20.00

Keyword	Searches	No. clicks	No. Sales	Gross Profit	Total PPC	Net profit
alternative health	15970	239.55	3.59	$71.87	$14.37	$57.49
alternative medicine	152422	2286.33	34.29	$685.90	$137.18	$548.72
holistic medicine	10769	161.535	2.42	$48.46	$9.69	$38.77
detox	34400	516	7.74	$154.80	$30.96	$123.84
detox diet	13111	196.665	2.95	$59.00	$11.80	$47.20
body detox	4694	70.41	1.06	$21.12	$4.22	$16.90
natural healing	5118	76.77	1.15	$23.03	$4.61	$18.42
boost immune system	2388	35.82	0.54	$10.75	$2.15	$8.60
health supplement	20670	310.05	4.65	$93.02	$18.60	$74.41
health food	39866	597.99	8.97	$179.40	$35.88	$143.52
organic food	33572	503.58	7.55	$151.07	$30.21	$120.86
anti aging	92175	1382.625	20.74	$414.79	$82.96	$331.83
holistic healing	4168	62.52	0.94	$18.76	$3.75	$15.00
natutal health product	3525	52.875	0.79	$15.86	$3.17	$12.69
natural health supplemen	2698	40.47	0.61	$12.14	$2.43	$9.71
Total	**435546**	**6533.19**	**98.00**	**$1,959.96**	**$391.99**	**$1,567.97**

Assumptions:
No. Clicks = Searches x Click Through Rate (CTR) of 1.5%
No. Sales = No. Clicks x Sales Conversion Rate of 1.5%
Gross Profit = No. Sales x Gross Profit Per Unit
Total PPC = No Clicks x Average PPC ($0.06)
Net profit = Gross Profit - Total PPC

Next, enter the number of searches that are done on each keyword/phrase a month using the Inventory Keyword Selector Tool. The Excel template will then calculate for you the number of Click-throughs (No. clicks) you can expect per month. How is this calculated? By taking the number of searches and multiplying it by an average click-through rate of 1.5%. What this means is that for every 100 surfers who search for this keyword/phrases in the search engines, roughly 1.5 will click on your link into your site.

Now, for every 100 that visit your site, will all of them buy your product? Of course not! Your conversion rate depends on how appealing your product is and how powerful your marketing sales copy is. Conversion rates typically range from 1% to 5%. To be conservative, we will take a conversion rate of 1.5%, which means out of every 100 people that visit your site, 1.5% will buy. The template will automatically calculate for you the number of units you are expected to sell (No. Sales) by multiplying the number of clicks by 1.5%.

The next thing you must enter is the estimated Gross Profit Per Unit (at the top). For example, if you are selling a golf instruction manual & video for $97 and your cost of production is $20, then your Gross Profit Per Unit is $77. The template will then calculate your total gross profit by multiplying 'number of sales' by 'gross profit per unit.' So if you sell 5 units a month at $77 gross profit per unit, the total gross profit earned will be $385.

Next, the template will then estimate the total Pay-Per-Click (PPC) or advertising dollars you have to pay for each keyword/phrase. Now you should expect to pay an average of $0.06 per click. So the Total PPC is calculated by multiplying 'Number of Clicks' by $0.06. Now, you will learn in the later chapters that you don't always have to pay to get traffic to your site. In fact, you can use a variety of ways to get free traffic from the search engines. However, let us assume that you pay an average of $0.06 for every click.

Finally, the template will calculate out for you the estimated total net profit (Total Gross Profit – Total PPC) you can earn a month from your business. In the example shown above, the estimated net profit a month is $1,567.97. Again, when you actually do this exercise, you should put in at least 100 keywords/phrases. The more keywords you use, the higher the chance of potential customers finding you and the higher your net profit. This whole process may seem rather tedious but remember that with this ready made template, all you have to do is to key in the figures in 'red' and let the computer do the rest!

Step #4 Create Products and Income Streams

Now that you have identified a profitable niche market and a common problem or need they share, you must then think of the kind of products or services you can provide that they will pay for. You must think of the various revenue streams you can create for your business. There are altogether seven different strategies to make money from your online business.

Revenue Strategy 1: Sell a Physical Product

The first and most common strategy is to sell a physical product to solve your customer's problems. For example, if your niche topic is 'golf swing improvement', you could sell books, videos, instruction manuals, audio CDs and golf swing enhancement equipment.

While selling your own physical products can be a big hassle (you must take care of inventory, packaging & shipping), it can yield the highest profit margins (as opposed to selling other people's products). When you sell your own physical products, you can

source for the lowest cost materials and at the same time, determine the price to charge.

However you must ensure that you are NOT selling products that people can get more conveniently at the store. At the same time, the products must be easily shipped worldwide.

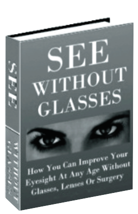
Some of the most successful physical products sold online include books, clothes, accessories, lingerie, toys, paintings, video games, rare collectibles and information products. A great example I can give you is of a 72-year-old retiree named Lewis Lehrman who sells his rare spooky themed paintings and prints online at www.hauntedstudio.com.

Besides selling your products on your own websites, you can also sell them through online shopping malls and affiliate networks like: www.shopping.com, http://froogle.google.com, www.shopzilla.com and Commission Junction (www.cj.com)

Revenue Strategy 2: Sell a Digital Product

Instead of selling a physical product, you could sell a digital (also known as electronic) product. Digital products are one of the best things to sell online because of the following reasons:

1. Digital products are cheap & easy to produce.
2. Product duplication is free, giving you 100% in profit margins
3. Because it is delivered electronically (buyers download it), delivery is instant.
4. You don't have to incur any inventory or freight charges
5. It is hassle-free as you don't have to worry about packaging and freight.
6. You can automate your entire business! Once the buyer's payment is verified, they just download the product. So, your involvement is minimal.



Some of the most popular digital products you can sell are eBooks (Electronic books), music, information products in audio or video formats and software. eBooks are gaining a lot of popularity and there is a growing market for them. Instead of ordering the physical book, customers just download the book in PDF format where they can read it on their computers or print it out themselves.

Some popular self-help ebooks on the Internet include Rosalind Gardner's Super Affiliate Handbook selling at US$47, the series of pet care ebooks at www.practical-pet-care.com and an ebook entitled 'See Without Glasses' selling at US$37 at www.seeingwithoutglasses.com. Remember that in Chapter 8, you learnt that selling your intellectual property through writing a book is a great way to make additional streams of income. And again, recall that you don't even have to be a great writer to be a best-selling author! All you need is to compile great ideas that add value to your niche market and get freelancers to write for you from freelance websites like www.elance.com (you can get someone to write an entire ebook for you from just US$500).

Many people are also making a mint selling software without knowing anything about programming! All they did was to identify a problem that people have that they could solve through software automation. They then hire freelance programmers to develop software that offers a solution to their target market. Again, you can hire a whole bunch of programmers at a low price from www.elance.com or www.rentacoder.com. For example, an ingenious entrepreneur thought that it would be great if people had software that could help them keep track of their goals. When installed into your computer, this software would flash your goals to you daily on your desktop and even send you encouraging reminders. It has been selling like hotcakes!

Screen Capture of www.roboform.com

You could think of and develop a hot selling software in less than a month. Some very popular software you can check out are

www.roboform.com (helps you fill out online forms automatically), www.gotomypc.com (allows you to access your home PC from a remote computer), www.ebookpro.com (helps you to create an ebook with security features) and www.audiogenerator.com (allows you to add audio clips onto your website easily).

Revenue Strategy 3: Sell a Service

The third strategy is to sell your services online to the global marketplace. This way, you can magnify your value like what was mentioned in chapter 8. As a medical doctor, you could consult patients online (remember the example of Dr Rajesh Shah?). As a lawyer, you conduct online seminars on 'strategies to reduce taxes' to anyone who pays a fee of US$10.

As a trainer, psychiatrist, graphic designer, interior designer, programmer, writer, accountant or translator, you could offer your services online as well. The only limitation with this strategy is that it is dependant on how much time you physically have to spend in front of your computer.

Revenue Strategy 4: Sell Other People's Products (Affiliate Marketing)

If you have no money to start with and want to start making money right away without having to create products, then becoming an affiliate marketer would be the best strategy. As an affiliate marketer, you basically promote another company's products on your website. For every buying customer you refer, you earn an affiliate commission (a percentage off the sales price which can go as high as 75%).

Here are seven reasons why affiliate marketing is the best way for anyone to get started making money online:

1. You can sell almost anything and everything that offers an affiliate program
2. You can get pretty high margins of up to 50-75% on digital products
3. You don't need to set up an ordering, processing & payment system
4. You don't need to provide customer service or follow up
5. You don't need to keep inventory or handle shipping
6. There are very minimal costs to startup
7. There is minimal risk. If the product or niche market you choose is not making money, you can switch to another market or product in minutes!

You can promote one product at a time or even a whole range of competing products at the same time. There is no limit or restriction at all. For example, the most famous affiliate marketer is Rosalind Gardner (read about her at www.superaffiliatehandbook.com) who makes over US$450,000 a year selling other people's products online. How did she do it? She set up a dating review site called www.sage-hearts.com. On this site, she reviews dozens of online dating sites around the world in different categories like Christian, adult, seniors, straights, swingers etc... Whenever someone clicks on one of her reviews and enters the dating site and becomes a customer, she gets a commission!

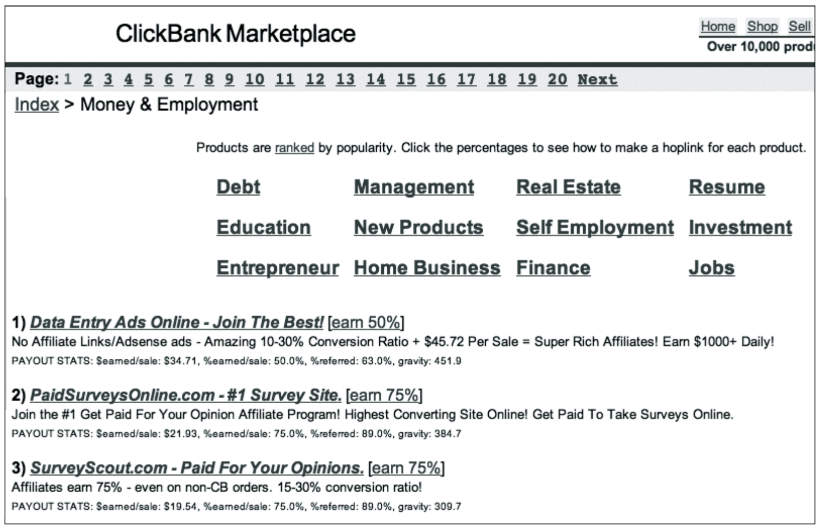
No matter which dating site they go too, she will always get a cut of the profits. Could you do the same thing in a different industry like reviewing the best online gaming sites, the best gambling sites or the best informational products? Of course you can! There are basically four steps you can take to become an affiliate marketer.

Step 1: Join an Affiliate Program

First, you want to search for the best merchant products to sell by scanning through affiliate network sites like www.clickbank.com (for digital products only), www.commissionjunction.com, and http://affiliates.befree.com. Choose to sell merchant products that offer high commissions of 50%–75% to maximize your profits. Besides commissions, you must also take into account whether the

product you are promoting is of good value, how they will pay you your commissions and whether they will provide you with good marketing tools. Below is a screenshot I have taken from www.clickbank.com to show you how different products with different commission rates are featured.

Screen Capture of 'Clickbank Marketplace' at www.clickbank.com



Step 2: Place Links on your Website

Once you have chosen which product to promote and have signed up as an affiliate, you will be given special coded links to put on your website.

On your website, you should write strong sales copy to promote the products you are representing, even making use of special sales information they will give you. Again, you could create a review site where you feature dozens of competing products at one time. However, you must add value by reviewing them and giving your own personal recommendations.

Step 3: Your Visitor Clicks that Link and Buys the Product

The better you are able to promote the products through your marketing efforts, the higher your conversion rates!

Step 4: You Earn Your Commission for Sales through Your Links

This is the best part! Just wait for your affiliate check to come through the mail!

For more information on affiliate marketing, I recommend that you go to www.internetmarketingsingapore.com where Internet guru Stuart Tan will show you how to become an affiliate marketer without even owning a website. You can also get more information by buying one of the top affiliate marketing books at www.superaffiliatehandbook.com.

Revenue Strategy 5: Create a Content Rich Site & Sell Advertising Space

Have you ever wondered why some websites give away great free information, provide a free service or allow you to download lots of good stuff for free? Well, their strategy is to attract a steady stream of regular visitors. So how do they earn their money? Well, on their website, they sell space to advertisers who place links and banners. When visitors click on the advertisement links or banners on their site, they will earn a commission. Normally, you will get paid on a pay-per-click basis.

So, if you can create a content-rich web-site that gets people to keep coming back and staying to read, you can make lots of money by joining a Google Adsense program. What this means is that Google will place ads on your site. Every time someone clicks, you get paid a commission off Google's advertising rates, which could be anything from $0.05 to $5 per click! So, here are the three steps to make money:

Step 1: Create a Content Rich Site

The first thing is to feature lots of useful and valuable content on the niche topic of your choice. For instance, if your passion is 'raising turtles', feature articles, reviews, resources on how turtle lovers can take great care of their pets. Again, if you are not a good writer or have no idea what to write about, you can display other people's articles for free! You can also go to www.articlecity.com or www.freesticky.com where there are hundreds

of free articles on any topic under the sun which you can use for free on your site.

Step 2: Join a Google Adsense Program

Next, go to www.google.com/adsense and join the Google Adsense program as a web publisher. Google will then place ads on your website which are related to your content. For example, if your site is on turtle care, then ads related to turtle care would be placed on your site.

Step 3: Visitors Click on the Ad and You Earn a Commission

Again, just sit back and wait for the checks to come in. Shown below is an example of how my business partner and Internet guru Stuart Tan makes a monthly income off his website www.stuarttan.com. You can see the Google ads at the right hand corner of the page.

Screen Capture of www.stuarttan.com

Revenue Strategy 6: Sell Drop Ship Products

How would you like to sell high quality, physical products like clothes, vitamins, watches, computers, toys with your brand name on it, while someone else takes care of the product inventory,

handling and shipping? Well, thousands of Internet entrepreneurs are making hundreds of thousands of dollars using this strategy called 'Drop Shipping'.

A Wholesale Drop Ship supplier is a discount wholesaler who will send products directly to your Internet customer for you, one product at a time, from their warehouse. They pack and ship the products for you. You pay a Wholesale Price for the products, one at a time, and charge your customer your retail price. The difference between those prices is your profit. You never have to touch the product, or spend money to fill your garage up with products that you might not sell... the Wholesale Drop Shipper does that for you. The best part is that the Wholesale Drop Shipper will put your company's brand on the products so your customer will never know your products are outsourced!

Here is an example of how it works. You set up a natural health supplements website called 'Naturalvits' which sells a whole range of vitamins targeted at health conscious women. You arrange a drop shipping arrangement with a drop ship wholesaler of vitamin supplements.

Step 1:	**A customer visits your site, is sold by your powerful advertising message and places an order of $39 + $12 (handling/freight charges) for Naturalvits vitamins.**
Step 2:	**You receive the order and send an email to the wholesaler with your customer's order and freight forwarding details.**
Step 3:	**The wholesaler packs up the order, puts your brand on the package and mails it direct to the customer.**
Step 4:	**The manufacturer bills you the wholesale price of $19. You net a profit of $20!**

So where can you find reliable drop ship manufacturers? The best resource I can point you to is www.worldwidebrands.com where they have directories of hundreds of the most reliable drop shippers world wide on almost every product category.

Revenue Strategy 7: Use Multiple Revenue Models

There is nothing stopping you from using more than one revenue model for your website. In fact, highly profitable websites combine three or more of the first six revenue models that I have shown you. Going back to our golf example, you could create a great website that reviews the very best golf clubs available in the world. You could become an affiliate marketer for dozens of companies that are selling golf clubs. At the same time, you could sell a digital product like an ebook on 'How to hit the ball three times further in two months'. You could also join the Google Adsense program and have other Golf Ads placed on your website. In addition, you could also sell your own brand of golf club accessories and make an arrangement with a drop ship wholesaler who will fulfill the order for you!

So as you can see, with the right strategies and hard work, you can indeed make a fortune from your Internet business. But wait! We are only at step number four in creating a profitable Internet business. In the next two chapters you will learn the other six steps like how to create a website, how to process payment, how to attract a sizable and continuous volume of traffic and so on...

chapter 11

Secrets of Building a Profit Generating Website

For even more resources visit www.internetmarketingsingapore.com

This chapter covers the next two steps you have to take to build a profitable Internet business. After this, you will learn the basics of how to set up a website and how to write compelling sales copy that converts traffic into sales. So, let's get started with...

Step #5 Design & Build Your Website

Once you have identified the kind of products and services you want to offer your customers, you need to find a location and set up your store. In the Internet world, finding a location means setting up an Internet address and setting up a store means building a website.

a. Register a Domain Name

Like a traditional business that needs an office address, you must register an Internet address, called a domain name, for your business. The domain name (or URL) you choose is really important because it will affect your ranking on the search engines and the ease at which browsing customers can find you.

Some important points to consider are...

- Your domain name should be easy to spell and remember. If you have a name like www.zephidorm.com, you bet lots of people are going to forget and key in the wrong name like 'Zefidom' or 'Zephidome' and you will lose valuable traffic. Also avoid addresses with creative names that involve numbers like 'www.Okay2U.com'. Again when people hear your name from friends, they will not be sure if they should key in 'O.K' or 'Okay' or whether it's a 'two' or a numeric '2'.

It is also best if your domain name contains the main keywords that your potential customers use to search for you. For example, if you are selling toys, you can bet that surfers will enter 'toys' into search engines like Google. If you have the keyword 'toys' in your domain name (e.g. www.toycity.com, there is a higher likelihood that you will get a better ranking. It is also more likely that customers will click on www.toyscity.com than a link that is meaningless like www.tomsstore.com. If you already have an existing company name like Tom's Store, then you could put all the different keywords as sub-domains which your programmer can create for you for free. Examples of sub-domains are www.toys.tomsstore.com, www.educationaltoys.tomsstore.com or www.barbie.tomstore.com.

b. Find a Web Host

Just as a store needs to be housed in a building owned by a landlord, a website needs to be hosted on a server that is run by a web host. Web Hosts are companies that offer a service where their server (a powerful computer) stores your web site's HTML files and graphics. Their server allows your web site to be accessed and viewed over the Internet. Web hosts charge a monthly fee anywhere from US$4 a month to US$35 a month, depending on the package you get. Not bad, if you compare this to a traditional business where you have to pay a couple of thousand dollar in rent, a month.

Just ensure that the Web Host you engage is a professionally run company with fast & secure servers, strong customer support and at the same time offer you sufficient memory space so people can view your website and download files easily. www.namesecure.com and www.godaddy.com also offer web hosting packages.

c. Design & Build Your Website

This is the equivalent of constructing your shop and getting interior designers to make it attractive for people to come into your shop to browse and to buy! I must say that this is probably the most fun part but also the most challenging.

The most important thing to bear in mind when building your website is the design. It must be one that sells and doesn't just look pretty. So many people make the mistake of spending time and money to do a snazzy, flashy website that dazzles and entertains but

doesn't get the viewer to click on the 'buy' button!

So what are the elements that get a surfer to have the confidence and interest to buy your products and services? Many people think that impressive graphics, a beautifully designed layout and flash presentations are a must for a good website. Unless you are a design or creative company, all the above elements serve no purpose! In fact, they tend to distract the surfer and reduce sales! If you study the most profitable websites in the world, they are very simply created with no fancy designs. What makes them profitable is their user-friendly structure and powerful sales copy. Again, take a look at Rosalind Gardner's site www.sage-hearts.com that was featured earlier. She designed her own simple website (so can you) which pulls in over US$400,000 in profits a year. Bert Ingley's site www.maddentips.com, also earlier featured, is also simply laid out and it pulls in US$157,000 a year!

Although simple, your website must include the following seven elements:

1. 'About Us' Page

You wouldn't do business or buy from someone who you do not know about right? In this page, it is important to give the background of your company and yourself. When you give specific details and include pictures of yourself, staff and office, it will all add to your credibility and visitors will trust you enough to buy from you.

2. 'Contact Us' Page

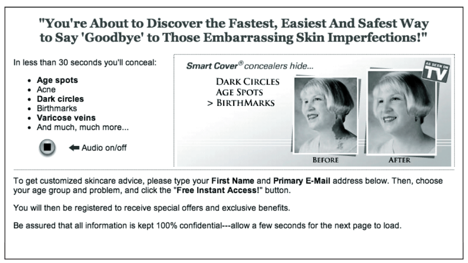
Again, this is an important page to establish trust and credibility. You want to show your clients that they can contact you easily should they have any questions or problems with their purchase. Always provide contact information like a phone number and a registered office address.

3. A Strong Headline & Powerful Sales Copy

Like an advertisement, the first thing your visitors should see is a strong headline that attracts their attention and presents the most important benefit (or solution) your website offers. For example, 'You're About to Discover the Fastest, Easiest and Safest Way to

Say Goodbye to those Embarrassing Skin Imperfections' is a great headline that is used by cosmetics company smartcover.com. Like a shop needs a good salesperson to show customers around and convince them to buy, your website should have powerful sales copy that draws visitors into the site, explains the benefits of your product and directs them to take action! You will learn more about the secrets of writing compelling sales copy in the next step.

Screen Capture of www.smartcover.com



4. Powerful Pictures & Graphics

Pictures grab attention and are worth a thousand words. Pictures add colour, excitement and life to your website. You should have lots of attractive pictures of your products, yourself (or your company spokesperson), models if necessary and satisfied customers.

5. An Opt-In Box

Most people who visit your website will not buy the first time. It may take them a couple of visits to get familiar enough with your products and your company before a sale is made. An 'opt-in box' is used to collect visitors' email addresses so you can follow up with them and keep them interested until they buy. You will learn more about this in Step #9. (refer to page 218)

6. A Clear Navigation Bar

All websites need a navigation bar that allows people to navigate through your site and enter the various pages that you have. It should include links to 'About Us', 'Contact Us', 'FAQs', 'Terms and Conditions', 'Order Page' and of course a link back to your 'Home Page'.

7. Order Page and Shopping Cart

Unquestionably the most important element is an order page where customers can fill up their payment details and your website can process the order. If you have got a few items to sell, you may also want to provide a virtual shopping cart and a 'check out' page. You will learn how to set this up in Step #7. (refer to page 203)

Four Ways to Build a Professional Website for Less than US$500 and in Less than a Week

So, with all these in mind, how and who can you use to build up the actual site? Many people think that to build a professional looking & functional website, you need to spend a few thousand dollars and wait a month for completion. The truth is that with the right strategies, you can build a professional, money-making website for $300-$500 in less than a week! Here are four options for you to choose from:

1. Build the Website Yourself

Building the site yourself is the cheapest option and gives you the greatest control and flexibility. You can update and change the site anytime you want. The best part is that you don't have to know any kind of programming and you don't need to be a creative designer to build a profitable website. In the past, you had to learn HTML programming in order to create a website. HTML stands for 'Hypertext Markup Language' and it is a programming language in which web pages are written in.

However, nowadays, with HTML editor software, you can just point, click and type and the software will write the HTML programming code for you. Building a website with a HTML editor is as easy as using Microsoft Word or Powerpoint!

The most popular HTML editors around are Microsoft Frontpage (priced at about US$199) and Macromedia Dreamweaver (this software is more expensive at US$399 and is usually used by professionals).

If you need to look for pictures and graphics to illustrate your website, you can find a wide range of images and graphics at websites like www.photos.com, www.freegraphics.com, www.coolarchive.com

and www.gotlogos.com. At the same time, you would also need to get software (like Adobe Photoshop) that allows you to view these images and manipulate them as you wish.

If you want to learn more about how to design and build a professional money-making site, I suggest you go to some highly successful sites and model the way they have done it. Some sites you can visit are www.carsecretsrevealed.com, www.cuddlebugbaby.com, www.buywithnocredit.com and www.smartcover.com. You can also go to websites like www.sitepoint.com and www.webdeveloper.com where they will give you additional tips and tutorials on building a site.

2. Get a Freelance Designer to Setup a Template

If you want to set up the website fast and do not want to spend time figuring out how to build it yourself, you could hire a freelance designer. This freelancer will set up the design template, logo and main graphics. You can then add and manage the actual content yourself using the HTML editor.

> **Tip:** You can get very good web designer by hiring university students or posting your job requirement on online and getting designers worldwide to bid for it. Such freelancers charge a fraction of what professionals charge. As mentioned before, go to www.elance.com or www.rentacoder.com to find such freelancers!

3. Buy a Website Template & Modify

Another option is buying a beautifully designed ready-made website template from www.templatemonster.com or www.freewebtemplates.com and then modify it to suit your needs. There are many categories and styles to choose from and they start from as low as US$50!

4. Hire a Professional Web Design Company

A web design company will take care of everything for you including designing the site, adding the content (which you specify), updating the content and hosting the site. However, this is the option I recommend the least as it is the most expensive (it will cost you a couple of thousand dollars) and you will have little control over

the content update as you will not have the freedom of updating it whenever you want.

Step #6 Write Powerful Sales copy that Converts Leads to Sales

Just as a store needs a salesperson to show people around, your website needs good sales copy to convert visitors into buying customers. Yet, many websites make the mistake of just sticking pictures of products with brief descriptions and they hope that people will browse and buy. That is like opening a shop and not having anyone knowledgeable about the products to attend to potential customers!

In a website, your sales copy represents the salesperson who will bring your visitors through the sales process of grabbing their attention, showing the merchandise, establishing trust & credibility, explaining the benefits, arousing their desire to buy and asking for the sale.

The best part is that you don't have to be a talented writer to write powerful sales copy. Anyone can do it once they learn the proven formula that I am going to show you. Let's get started learning this trade secret now...

a. Know Your Unique Selling Proposition

Before you can start writing, you must know the unique benefits of your product or service. What makes your product superior to the competition? Is it faster? Is it more effective? Why is it more attractive? Does it save the user more money? How does it create more value? Although there may be many benefits, you only have to focus on three of the most powerful ones. Think about your product now and write down the three most unique benefits they will give your customer.

Once you know these key benefits, your headline and sales copy will then be focused on driving these winning points into the mind of the consumer.

Benefit #1 ____________________

Benefit #2 ____________________

Benefit #3 ____________________

b. Get into the Mind of Your Target Market

Before writing, you must know who your target market is. Who has the need and the ability to buy your product? What happens if you try to sell your product to everybody? Well, your message will not be strong and targeted and you will end up selling nothing! This is one of the most common mistakes that entrepreneurs make. For example, if you are selling magazines like 'Forbes' or 'Fortune', your target market would be professionals, managers and executives ages ranging from 30 to 50 years with an income of at least $4,000 a month. The way you communicate with them will be very different from the way you reach a teenager and young adult customer base. For instance, if you are selling ring tones you should use a language that is more hip and cool.

Once you know who your target audience is, then you must get into their minds. This is why you must always sell something that you are passionate about and that you will buy yourself. When you become a customer yourself, you will know the problems, concerns, needs and interests of your target market. You can then relate to the reader and sell them the way they want to be sold. So, think about who your customer is and answer the following questions:

What are your customer's current problems and frustrations and how will your product or service address and solve it? (e.g. no money, lonely, poor school grades, inability to lose weight etc...)

What are their potential concerns, fears and objections? (e.g. too old, too difficult, too expensive, no time etc...)

What are your customer's dreams and aspirations? What is important to them? What would get them excited? What are their hot buttons? (e.g. make money, lose weight, boost self-confidence, gain security or freedom etc...)

Only with this knowledge can you build trust and rapport with your visitors and arouse their interest and desire to purchase your product.

c. How to Write Powerful Headlines

Every sales-driven website must have a powerful headline. The purpose of your headline is to grab your visitors' attention and draw them in to explore your site. The moment you are not able to do this, your visitors will click out and you will lose a potential sale. Your headline is so important that research has shown that a change in headline can increase a website's sale by 714%!!!

As earlier mentioned, a powerful headline must GRAB your visitor's ATTENTION and present the MOST IMPORTANT BENEFIT (PROMISE) you are offering them. Here is a powerful headline that a dog training website uses.

Screen Capture of www.dogtrainingzone.com

Here are Examples of Great Headlines that Have Worked

- **How** I made $436,797 in one year selling other people's stuff online
- **Instantly** lose weight without dieting or exercise
- **How** to double your income **without** changing jobs
- **Announcing** a new cure for baldness
- **The 7 Secrets** that will Slash your Car Expenses by $2000-$5000 a Year
- **Latest** Math Teaching Technology Helps Students Score 'A's in three months
- **Don't** buy another car **until** you read these facts

As you can see, every single one of these headlines is attention grabbing, arouses curiosity to read further and delivers a specific promise. On the other hand, here are examples of common headlines that do not bring in sales:

Examples of Weak Headlines:

- **Is Worrying Robbing You of the Good Things in Life?**

This Life insurance company's headline is overly negative and gloomy.

- **Learning the Peter Richard's© Way**

This company is selling English classes for children. The problem is that the headline does not convey any kind of benefit at all and does not even give a clue as to what the product is all about.

- **No… No… Don't Call On Me**

This is a public speaking course that uses a headline that attempts to be smart and creative but again does not present any kind of benefit and does not invoke any kind of curiosity to read on.

- **The Value in Quality**

This watch retailer has used a 'dead headline' that does not invoke any interest to read on or check out the product.

- **Joe's Hardware Accessories**

The most common mistake most business owners make is to put their own names as the company's name and use that as their headline when they haven't made a name for themselves! Visitors don't care who you are and what you sell if you cannot tell them the benefits.

So how do you write those great headlines that do the job? Well, the secret is not to re-invent the wheel but to model the winning sentence structures that are underlined. Let's take the headline 'How I made $436,797 in one year selling other people's stuff online'. This formula of starting with 'How...' can be applied to virtually any product. Here are some examples using this formula:

- **How** I Made my First Million with the Power of NLP
- **How** to Motivate Your Child to Score 'A's in Life
- **How** to Win Friends and Influence People
- **How** I became Popular Overnight and How You Can Too!

Similarly, you could use the winning formula of '**Don't** Buy Another Car **Until** You Read these Facts.' And come up with these headlines for other products:

- **Don't** buy another insurance policy **until** you read these facts
- **Don't** buy another weight loss product **until** you read these facts
- **Don't** attend another wealth creation seminar **until** you read this ad

So, think about your product and come up with at least twenty possible headlines using all the winning formulas I have shown you and choose the most powerful one for your website. Go ahead and do this now...

d. Secrets of Writing Sales Copy that Sells

Once your headline has grabbed the attention of the visitor and aroused their interest to explore the site further, you must use persuasive sales copy to bring your visitors through the proven sales process of presenting the product, establishing trust, explaining the benefits, arousing their desire to buy and asking for the sale. Here are three important principles in writing persuasive copy.

Principle #1 Sell Benefits And Not Features

When selling your product or service, do not make the mistakes of focusing on the features but the BENEFITS it offers the consumer. When we focus on benefits, the prospect will get emotionally excited to buy as they can clearly see how it would solve their problems and change their lives.

For example, if you are selling Super Cool Aircons, then writing 'Super Cool Aircons have high energy efficiency' is a feature. If you convert it into a benefit like 'Super Cool Aircons will cut your electric bill by 25% and save you lots of money', it becomes a lot more compelling doesn't it?

If you are selling Super White Toothpaste, then writing 'Super White toothpaste's special formulation polishes and whitens teeth' is a feature. How could we write in terms of benefits? Well think about why people would want whiter teeth? How would they benefit? You could say 'Super White toothpaste will give you brilliant white teeth and a beautiful smile that wins friends.' People are driven to buy by emotions than pure logic. When you write in terms of benefits, you evoke the great emotions that will drive the prospect to want to buy now.

Principle #2 Use Plenty of Powerful Adjectives & Specific Figures that Give Impact to Your Sentences

Compare the following two sentences. 'How you can increase your income' versus 'How you can massively increase your income by 25% in just 12 months'. Now, which one sounds more exciting? Obviously the second one does. The secret is to use powerful adjectives like 'Massively' as well as specific figures like '25%' and 'in just 12 months'.

Principle #3 Speak in the 'First Person' to the Reader by Using 'You' and 'Your'

By phrasing your sentences with plenty of 'you' and 'your', it gets the client feeling associated to the product – like he or she is already using it and experiencing the benefits now.

Compare the following two sentences

'Brightsmile toothpaste is packed full of the right nourishing vitamins & oral care cleansers for the teeth & gums that will result in cleaner, whiter and healthier teeth.

And

'Brightsmile tooth paste is packed full of the right nourishing vitamins and oral care cleansers **you** need for **your** teeth and gums. And it will give **you** a cleaner, whiter and healthier smile.

As you can see, the second sales copy is written in such a way that it associates the consumer's mind to the product so that he/she can literally feel the benefits that are offered. So with all these principles, what do you write about first? How should you structure your content? Well, it depends on whether your site is selling a single product (or a few products) or you are selling a whole range of products. Here are two different strategies to use.

e. Long Copy if You Have A Single Product/Few Products

Now, bear in mind that whatever I am going to share with you here may totally shatter your beliefs and perceptions of how a website

should be structured. Many people believe that your website should have as little words (copy) as possible since most people are generally too lazy to read. Instead, the general practice is to just stick in lots of pictures with very brief descriptions and let the visitor decide where he or she wants to click to. The reality is that this strategy results in low sales conversion.

The truth is that if your sales copy is exciting and interesting, then people will read even if it seems long. If you are selling a single product, it has been proven by numerous split tests that if you are selling a single product/service, a long copy sales letter actually results in higher sales as you will be directing the prospect though a proven sales process instead of allowing the visitor to get distracted by the different links on your home page. If you visit the most highly profitable sales sites, you will find that many of them follow 8 proven steps in converting a prospect to a customer.

The 8 Proven Steps in Writing a Long 'Copy' Sales Letter

Here is an overview of the 8 steps that all great salespeople and marketers use to convert prospects to sales. This proven sales process is not just limited to website sales copy but applies to any form of persuasive marketing copy. You can easily adapt it to print advertisements, flyers and direct mail.

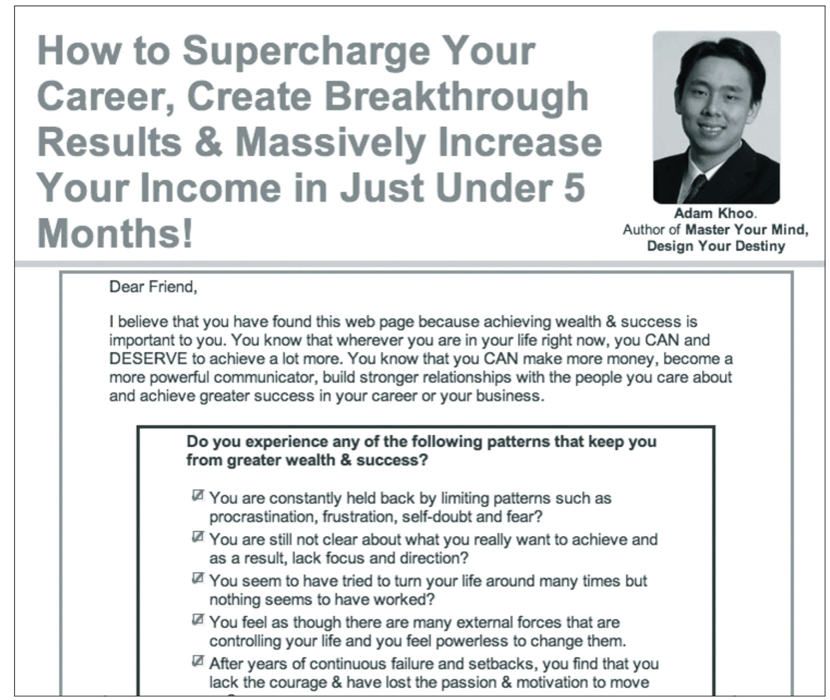
Step 1: Pace & Magnify the Problem
Step 2: Provide the Solution
Step 3: Sell the Benefits & Dreams
Step 4: Establish Credibility
Step 5: Create an Irresistible Offer by Giving Bonuses
Step 6: State the Price & Why it is Very Reasonable
Step 7: Provide a Strong Guarantee to Remove Risk
Step 8: Ask for the Order

Step 1: Pace & Magnify the Problem

Start off by describing the buyer's current experience in dealing with the particular problem you are going to solve. Describe the frustrations, unmet needs and fears he faces. This builds

instant rapport by creating a strong connection. The reader feels 'you understand me'. 'You know what I'm going through'. A powerful approach is to talk about your own personal experience with the problem... something that the reader is experiencing as well. Here is an example from one of my product sites at www.successwithnlp.com

Screen Capture of www.successwithnlp.com



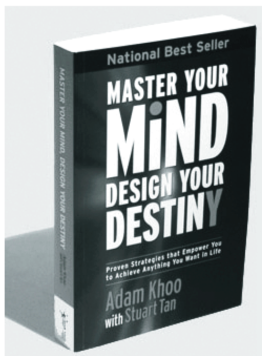
Step 2: Provide the Solution

Once you have paced and magnified the problem that your consumers face, present your product/service as **the solution** to their problems and describe the main benefit briefly. In my example, I present NLP as the solution that will help my target market overcome their problems and achieve their goals. Before, presenting the solution, a powerful strategy I have found is to show testimonials of customers who have solved their problem or reached their goals.

Screen Capture of www.successwithnlp.com

As a Financial Planner, I had always been able to achieve the Million Dollar Round Table (MDRT) status, qualifying me among the top 1% of insurance advisors around the world. However, through the principles in this book, I learnt to set a quantum target of tripling my sales and income and qualifying for the prestigious Court of the Table. I achieved this just within 2 months!

Lorraine Koh
Financial Advisor
Prudential Assurance Company



Master Your Mind, Design Your Destiny

Proven NLP Strategies that Empower You To Achieve Anything You Want in Life

If you want to learn how NLP & the power of success conditioning can help you achieve success in your life right now, then you must read
Master Your Mind, Design Your Destiny!
By Adam Khoo with Stuart Tan

It is by far one of the most comprehensive, practical and powerful books written on how you can apply NLP to your career, relationships, health and personal development immediately.

Step 3: Sell the Benefits & Dreams

Instead of talking about how great your product features are (which is what most sales letters do), describe how the buyer will benefit and achieve his/her dreams from your product. Use lots of sensory-based words to evoke pleasurable emotions!

Screen Capture of www.successwithnlp.com

What You Will Master in this Book

- ☑ Use the Ultimate Success Formula to achieve your dreams
- ☑ Identify and eliminate limiting beliefs that hold you back
- ☑ Re-ignite your focus and passion. Find your driving force
- ☑ Design and achieve your desired destiny
- ☑ Take immediate control of anything in your life
- ☑ Breakthrough limiting habits & install winning patterns
- ☑ Take charge of your emotional states for peak performance
- ☑ Tap into peak states of confidence & motivation instantly
- ☑ Turn failures and setbacks into million dollar opportunities
- ☑ Learn powerful & practical techniques to cure fears and phobias
- ☑ Model & replicate the success blueprints of peak performers

Step 4: Establish Credibility

Internet users are generally skeptical and are always weary of bogus information, false claims and scams. As a result, you must build your credibility as an honest, trustworthy and credible business.

The best way to build credibility is to:

1. Provide your credentials or your company's credentials

Including a photograph, registration numbers and other forms of proof, all to help to build trust and credibility immensely. In my case, I feature all the press articles written about me.

2. Provide impressive testimonials

In order to build credibility, your testimonials should have a picture of the person giving the testimony, his/her full name and designation as well as how specifically they have benefited from your product/service.

Screen Capture of www.successwithnlp.com

My name is Adam Khoo and at the age of 31, I am one of Singapore's youngest self-made millionaires. As a student, I ranked among the top one percent of students in the country. (for those of you who have no clue where Singapore is, it is an independent country at the southern tip of South East Asia.)However life was not always like this. When I first started out as a student, I was someone who was lazy, unmotivated, had zero self-confidence and to top in off, a slow learner. I got into lots of trouble at school and found myself being expelled at the age of 8. I did so badly in my primary school final examinations that I found myself at worst class at one of the bottom three secondary schools (high schools) in the country.

It was through sheer desperation that I began to first learn about the power of NLP and how it could help me to take charge of my life and turn my life around. I dedicated all my time to mastering this powerful technology and even went through training by Dr. Richard Bandler, the founder of NLP. I learnt that achieving anything was possible, it was only a matter of modeling the winning strategies. It was then that I set the absolutely almost impossible goal of topping my school and qualifying for the National University of Singapore (reserved for the top 10% of students in the country). My next goal was to top the university and achieve my first million by the age of 26. By empowering myself, using the Ultimate Success Formula and modeling the success blueprints of top students and multi-millionaires, I rocketed myself to become among the top one percent of academic achievers at the university. Concurrently, I started two businesses in the area

Screen Capture of www.successwithnlp.com

How 'Master Your Mind, Design Your Destiny' Has Helped Thousands of Individuals Achieve their Dreams

Just how powerful are these strategies when put into action? In just the last 24 months, over 27,000 sales professionals, entrepreneurs, educators, parents & managers have achieved exceptional results in their performance as a result of applying these strategies. Here are just some of their stories…

Charles Tng
Managing Director
SpeedB Pte Ltd

The Ultimate Success Formula and Self-motivation I have learnt have been totally mind blowing. Using the power of modeling successful students, I moved from Cs & Bs to Straight As for my university exams. I even found the passion and drive to run a successful business at the same time.

Woo Chiat Min
Pharmacist

After suffering a severe stroke and a 21-day coma, I lost a large portion of my cognitive abilities and my memory. Being unable to continue my normal way of life. I lost my self-esteem and slid into a depression. However, after learning the power of self-belief and the strategies of how to empower myself from Adam Khoo, I regained the will power and confidence to heal myself to the level where I able to be a great mum and career woman again

Step 5: Create An Irresistible Offer By Offering Bonuses

The next step is to create a very high-perceived value for your product/service. This is so that when you reveal your price, the offer would seem like a great deal. You can achieve this by offering them a bundle of additional bonuses that are valuable so it makes what you offer seem like an IRRESISTIBLE DEAL.

However, it is very important that the bonuses you offer…

- Must be of genuine value to the target market
- Should be related to your product/service or even enhance it
- Be of high perceived value but of low cost to you

Some great example of bonuses include a free Ebook, a special video, newsletter subscription, special reports, free membership access and so on...

In Addition You Will Get the Following Free Bonuses If You Order Right Now.

Bonus #1: '33 Killers Persuasion Tactics' Book-worth US$45

Bonus #2: '69-Pages Compilation of Success Scripts that Program You for Success'-worth US$27

Bonus #3: '19-Page Special Report on How to Help Your Loved Ones Alleviate Negative Emotions'-woth US17

That's a total of US$89.00 you will be receiving absolutely FREE

Step 6: State the Price & Why It Is Reasonable

The next step is to state the price you are offering and explain why it is extremely reasonable. You may want to briefly restate the benefits and special bonuses you are offering and what they are actually worth. Then state why your price is much lower than the true value of the package.

Usual Price ~~US$285~~

Now Available at Only US$199.00 for a Very Limited Period Only

(FREE Standard Worldwide Shipping)

"Limited stocks! Already 822 people can't be wrong! Only 107 sets remaining…"

Why this Price is Extremely Low

I have spent the last 12 years and over $37,000 researching hundreds of NLP & success conditioning books, attending over 27 seminars on NLP to distill the most powerful, comprehensive and practical NLP strategies available today. Included are also examples and lessons from the hundreds of consulting and coaching projects I have done with hundreds of my clients.

The Patterns of Excellence audio program itself is valued at US$250! This program distills the essence of Adam Khoo & Stuart's Tan's live NLP training priced at over US$2,800. You get all this plus MORE at just US$199.00. This is a super bargain that will never repeated.

Step 7: Provide a Strong Guarantee to Remove Risk

At this point, the only thing that may stand in the way of an order is the fear the customer has of making a mistake in buying. To remove this risk, offer a strong thirty-day, one year or lifetime money back guarantee! Isn't this risky for you? What if people take advantage of your offer? Well, I have found that unless they are absolutely infuriated, people are usually too busy or lazy to go to the trouble of returning something. The resulting confidence & high sales conversion a guarantee provides far outweighs the risks of returns.

> **Order Risk Free with a 100% Money Back Guarantee**
>
> Don't decide now if the **'Master Your Mind, Design Your Destiny'** book and **Patterns Of Excellence Program** is right for you. **Take 90 Days to put it to the test!** If you aren't completely satisfied with our products at any time within 90 days, I'll give your money back… no questions asked!
>
> " We spent countless hours putting this together. And my hourly rate is $2,500. Imagine, you are going away with $25,000 value! Yet, you don't have to pay even $5,000 for this fantastic product. Not even $500. You see, I believe strongly in high value. For our limited stock clearance, we are going to release at $197. But if you order today, we will give it to you for $199.00. Plus, the extra bonuses, no questions asked!"

Step 8: Ask for the Order

The final and most important step is to get them to take action NOW! To stop people from procrastinating and coming back later (and some never come back), create a limited offer that will generate a sense of urgency to click to order Now! For example, some websites state that 'if you order in the next five minutes, you get a special never-to-be-repeated price'. Alternatively, you could also state, 'Only the first fifty orders will get a special free bonus worth US$67'.

Now, besides my product site at www.successwithnlp.com, you can also see how other highly successful sites utilize long copy sales letters to turn over thousands of dollars in business. Many of these sites have been mentioned before and they include: www.carsecretsrevealed.com, www.superaffiliatehandbook.com, www.buywithnocredit.com and www.sitstayfetch.net.

Now you may be wondering, 'why is it that there are some highly successful Internet business like www.amazon.com that do not require such long copy?' Well, one reason is because they are already

a household brand and they have no need to establish credibility. People already know about Amazon and what they do. Similarly, if you already own a brand that is highly reputable and people are already coming to buy, then of course a long copy sales letter will not be necessary. So what if you run a site that sells hundreds of items like pots and vases, must you write a hundred of those sales letters? Of course not. For sites which sell a whole range of items like golf equipment, apparel, antiques, gardening equipment, you would use a 'catalog style site' with short copy for each product.

f. Short Copy for Catalog Style Site

Short sales copy has been proven to be effective for a catalog-style site, which offers a wide variety of products that can be grouped into categories. However, it is still vital that your catalog-style site have the following elements:

1. A Powerful Headline
2. Beautifully Taken Pictures of Your Products
3. Short and yet compelling copy spelling the benefits of each product
4. Testimonials to Establish Credibility
5. A Strong Guarantee to Remove Risk
6. Additional Bonuses to Create an Irresistible Offer
7. A Limited Offer to Create Urgency to take Action

Here is an example of a catalog-style site called www.serenityhealth.com

As you can see, this catalog-style site has a benefits-driven headline and well written short sales copy that describes the company and the products they sell. On the left-hand side, its numerous products are organized into various categories like 'Bean bag chairs', 'Hammocks', 'Soothing candles' and so on.

Screen Capture of www.serenityhealth.com

For each of the featured products, short compelling sales copy is again written to bring out the key benefits.

You may realize that all these powerful sales and marketing strategies do not just apply to an Internet business, but to any business! In fact by applying these same principles to your day job, you will find yourself being able to massively increase value for your company. Let's go on to the last chapter in this section to cover the final four steps.

chapter 12

How to Attract Tons of Paying Customers Online

For even more valuable resources visit www.internetmarketingsingapore.com

Welcome to the final chapter on building an Internet business. The reason I have devoted four entire chapters to this subject is because I believe that anyone with commitment can create additional income streams through this powerful medium which is just in its infancy. Whatever Internet business you build today will easily increase in value by 100-fold as millions of more people from India, China and other parts of Asia go online. So, let's get started on the final four steps now.

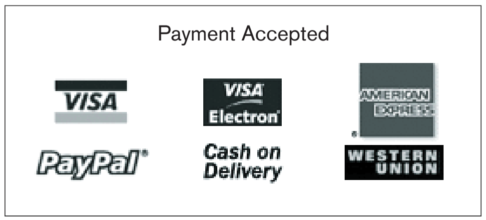
Step #7 Set Up an Order & Payment System

After you get your customers all excited about your company and products, you ultimately need a secure and efficient way to process their order, receive payment and deliver the goods. Just as a shop needs a checkout and a cashier, your Internet business needs a virtual checkout and payment gateway. Many Internet entrepreneurs overlook the importance of this step and fail to give their customers the confidence to make immediate purchases online.

Let Your Customers Pay Through Credit Cards and PayPal

So how do you accept money over the Internet from customers all over the world? While there are numerous ways, accepting payment by credit cards and PayPal is more than sufficient. As an e-retailer, you must accept all major credit cards or prepare to lose over 85% of your potential business. Giving your customer the option to pay by credit cards gives them a fast and hassle free way of making their purchase. Internet surfers by nature are impatient and if you

require them to write a check, fill out details and put it all in an envelope and mail it to you and wait a few days for their order to be processed, they will most likely abandon the idea and buy from your competitor. Not only do credit cards allow you to capture the majority of customers who buy on impulse, but it also adds a lot of credibility to your business. By accepting credit cards, it gives the impression that you are a reputable business.



While the majority of your customers will have a credit card, there will be a handful that may not own a credit card. This is especially so if you are selling to teenagers. In this case, the best option would be to accept payment through PayPal (www.paypal.com). PayPal Inc (owned by eBay) allows anyone to send or receive money in any currency over the Internet without the need for a credit card. All that person needs is a bank account and an email address. Here is how it works. A potential customer transfers money from his bank account to his PayPal account (which he can open instantly online). When the customer confirms his order, PayPal would transfer the money to your PayPal Merchant Account (which you can set up instantly for free). You can then transfer the funds from your PayPal account to your local bank account with the click of a mouse. Of course, PayPal charges a transaction fee of 2.4%–3.4% plus US$0.30 for their service.

One-Stop Online Payment Solution Providers

Today, there are hundreds of online payment solution providers who will be able to give you a full turnkey package that will allow you to accept and process credit card payments in a short period of time. For a packaged price, they will provide you with a merchant account, a secure server, a payment gateway and a shopping cart.

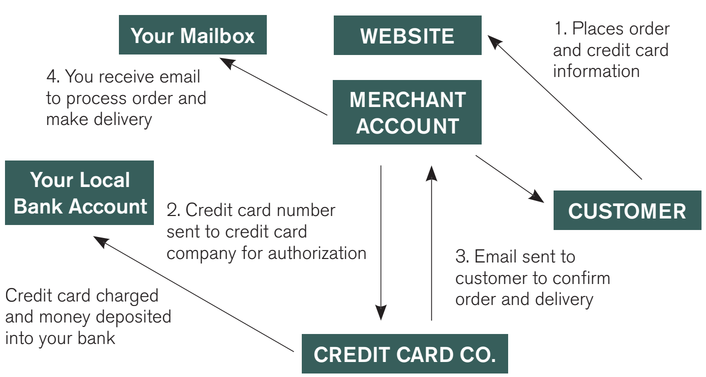
So what does all this mean? A merchant account is an account that will allow you to accept and process all major credit cards online. A secure server is a computer server that will encrypt and protect your customer's confidential information from hackers while it is being sent for processing. A payment gateway is a software that will integrate your website to your merchant account. Using the secure server, it will allow the secure transfer of credit card funds from your customer to your merchant account.

Finally, a shopping cart is a software that allows your customer to add or delete items that they intend to buy while they browse your website. It also calculates the total value of the items and passes all this information to your merchant account when the customer confirms his/her order.

However, if you only have one or two items to sell, a shopping cart would not be necessary. All you would need would be an order page where the customer would have to fill up all his/her confidential information and click the 'buy now' button. All this would usually be provided by the payment solution provider you choose so don't worry about how you are going to set it up. Shown below is an example of a simple order form.

Here is how the whole process will go. When the customer decides to purchase your product, he will fill up your order form or shopping cart and confirm the purchase. The buyer's credit card information will be sent securely to your merchant account where it will then get sent to the credit card company to verify and authorize the payment. Once approved, the buyer's credit card will be charged and the money deposited into your bank account.

At the same time, a confirmation message will be sent to the buyer with an electronic receipt and details on when they should expect delivery. Simultaneously, an email will be sent to you so that you can process the order and deliver the products immediately.



The Online Payment Solution Providers I highly recommend include Worldpay.com (for their Singapore site, go to www.worldpay.com/sg), Quicksales.com, E-nets (www.nets.com.sg/enets) and Paypal.com (Paypal also allows you to accept credit cards worldwide).

Visit their websites and check out the different packages & services they offer before deciding on which best suits your needs!

Of course, once you have received their credit card approval and order confirmation, you need to deliver the products to your buyers immediately. If you are selling an electronic product like an ebook or software, then you can automate your website such that the product is sent automatically without you having to even be present. This is especially important as it gives your customers instant gratification for their purchase. As for physical products, you will have to usually pack up the products and air (or sea) freight them to your customers through standard or express services like UPS or Federal Express. Do remember to give your customer the different freight options and the related charges in your order form. It is also essential that you give an indication of the time it will take for them to receive your products.

Additional Tips to Give Your Customers the Confidence to Buy

Although a huge majority of surfers are making purchases online, many are still wary of giving out their credit card information for fear of fraud. No matter how enticing your offer is, your visitors will not buy if you don't give them the confidence that your business is legitimate and reliable. So how can you win over your potential customer's trust and confidence? Here are some tips!

Tip #1: Include a Comprehensive 'About Us' and 'Contact Us' Page

As mentioned before, would-be buyers want to know that there is a credible person and company behind the website. Giving detailed information about yourself and your company's history together with pictures will definitely build confidence. Provide your company's office address, fax number and if possible, a 24-hour hotline where they can have their questions and concerns addressed immediately will be a huge bonus.

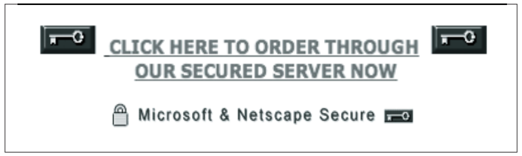
Tip #2: Post Certifications On Your Site

There are a number of respected third party consumer watchdog

organizations like TRUSTe (www.truste.org), BBBonline (www.bbbonline.com), Consumer Trust (www.commercetrust.com.sg) and Trust SG (www.trustsg.com) that monitor and certify online businesses for trust and reliability. By getting certified and placing their logos on your site, your customers will definitely have the confidence to buy.

Tip #3: Include Security Information & Logos on Your Order Form

Finally, including security information on your order form such as 'Order now through our secure online order form' definitely helps. Some websites even place a key and padlock symbol with the words 'Microsoft and Netscape Secure.'



Step #8 Drive Traffic to Your Site… in Droves

You can build the most beautiful site with the best products in the world but if no one is able to find your site out of the millions of websites on the Internet, you are as good as being non-existent.

The fatal assumption most business owners make is that when they open a shop, be it online or offline, people will just walk in and buy. In the past, this may have worked because there was only one tailor or shoe shop in town. Today, there are hundreds and thousands of businesses selling the same products. This means that you have to proactively go out and identify, target and attract the customers you want to your shop or site. Only when they visit your site, will you have the opportunity to convert a browser to a sale.

In the past, if a customer walked out of your shop, you would just wait and hope that he returns. Today, the moment you allow a customer to leave your shop without buying, you can be sure that he will walk into a dozen other shops and forget about you. The moment a new visitor enters your website, you have to continuously keep in touch and build a relationship until he or she buys and keeps buying more and more.

So how do you attract people to your website? Well, you can either get free traffic or to pay for it through advertising. As a savvy Internet marketer, you must use a combination of both strategies. Let's look at the advantages and disadvantages and the specific strategies of how to do it.

Getting Droves of Free Traffic to Your Site

The obvious advantage to this approach is that it is free, so your leads do not cost you a cent. However, this approach takes time and it may be weeks or even months before you see any significant traffic. The sources of free traffic are through 1. search engines, 2. links on related websites, 3. giving away free valuable information, 4. viral marketing and 5. advertising on free classified ad sites.

1. Getting Traffic from Search Engines

Where is the first place you would go to when you are searching for information online? I would bet that it would be through a search engine like Google, Yahoo! or MSN. Well, that is how most of your potential customers will find you as well. In fact, expect more than 50% of your potential customers to find you this way.

The problem is that surfers only bother to look at the top 10-20 search results on the first two pages. With the hundreds of thousands of websites that turn up on each search, what are the chances of your website coming up on the top 20? Well, if you just put up your website and do nothing, then your chances are as good as striking the lottery! This is especially so among highly popular keywords. For example, if you go to Google and typed in 'Golf' (go ahead and do this now), you will get 234,000,000 search results! So imagine

if you were an online business selling golf equipment, you would have no chance of getting any visitors this way. However, if you were selling a more niche product like 'gold plated golf equipment', it would only turn up 325,000 searches.

So with hundreds of thousands to millions of competitors, is it possible for you to get ranked amongst the top 20? The answer is an absolute yes, and you can achieve this within six months with the right strategies. While there are entire 300-page books written on how to achieve 'Search Engine Optimization', I will highlight some of the most essential strategies and point you to additional resources you can use. First, you must understand how the search engines decide how to rank websites. Rankings are not based on a 'first come, first served' basis nor based in any alphabetical order. Instead, search engines have 'spiders' that crawl the World Wide Web and index the millions of web pages based on a complicated mathematical formula that measures the website's relevancy and popularity. The more relevant your website content to the searched keyword and the more popular your website, the higher your search rankings will appear. There are three basic strategies you can use to boost your rankings.

Strategy #1: Boost Your Link Popularity

One way that search engines measure your website's popularity is based on the number of incoming links to your website. This is called 'link popularity'. The more incoming links you have, the higher your link popularity and the higher your chances of getting ranked high. A highly ranked website usually has about 50-100 links at least. To monitor the number of incoming links, you can go use a special tool at www.linkpopularity.com.

Before you start getting all your friends to place links back on your site, be warned that links must be relevant. In other words, if your website is on 'golf equipment' and you get your friend's website on computer games to linked to you, it will not be counted. In fact, search engines may even penalize you for that! You must have incoming links that have content which is relevant to your site like golf review sites, golf ezines (online magazines), golf country clubs and so on. In addition, the sites that link to you should themselves have high traffic. Having a million links from sites that nobody visits will not be taken into account. As you can imagine, it would take some time to build up such a network of incoming links but here are a few ways you can accelerate the process.

a. Build an informative, content rich website. If your website contains useful information valued by your target market, other websites in your industry will be more willing to link to you.
b. Request links from related websites. Actively search for websites that are related (but not competitive) to your target market. One strategy is to check the websites that are linking to your competitor's sites. (You can easily find this out from www.linkpopularity.com). Write a personal message to the website owner and request a link from them. If you position it as a win-win partnership, the chances are they will be happy to oblige.
c. The best way to boost the number of website pages that link to your site is to create them yourself. Create your own content rich pages that direct traffic to your main site.
d. Another powerful strategy is to build separate web sites for each of your products (or category of products) and then link all the sites together. This will result in each sub-site have a higher link popularity and ranking.

Strategy #2: Choose & Strategically Place the Best Keywords

Keywords are what search engines look for when ranking your website. For example, if you key 'golf equipment' into Yahoo!, it will show you sites that have this keyword in the greatest density. The greater the density of that particular keyword, the more likely it will get a higher rank (among other factors). In case you are thinking of just stuffing 'keywords' into your website (i.e. just putting the word golf equipment over and over again), forget it! Search engines are not stupid and will penalize you! Your keywords must appear in particular places and must be formed into logical sentences.

The first step is to choose keywords & phrases your target market will be using while searching the search engines. In the earlier chapter, you learnt to use tools like http://inventory.overture.com to come up with a list of 50-100 keywords relevant to your site. Again if you are selling golf equipment, you will want to use keywords like 'Golf Equipment', 'Tiger Woods', 'Nike Golf', 'Golf Clubs', 'Callaway', 'Drivers' and so on...

While building your website, you will want to place your most important keywords in your domain name, title tags and throughout your sales copy.

a. Domain Name

Load your domain name with the best keywords to get a higher ranking. We covered this earlier in the last chapter on building your website.

b. Title Tags

A title tag is what appears at the very top of your web browser. It contains the title and description of your website. For example, on my website www.adam-khoo.com. The title tag is 'Adam Khoo's Success Tips'. If you click on the 'view source' button on your web browser, you will see this text in your source code that appears between <title> and </title>. Ensure that your most popular keywords appear a couple of times in your title tag by creating a descriptive statement of your website. For example, if success were an important keyword, you could structure your title tag like this:

<title>Do you desire **success**? Adam Khoo's **Success** tips offers you a wide range of **success** related products and **success** resources that helps you achieve **success** in life </title>

In this case, the keyword 'success' appears five times in the title tag. The more the better! You can in fact, put up to 66 keywords in your title tags for Google and 120 words for Yahoo!.

c. Throughout your Sales copy Create Good Keyword Density

Sales copy that is rich in popular keywords will help you achieve a higher ranking. As you write your sales copy, do your best to keep using as many of the keywords and phrases as possible. A good keyword density to aim for is about 15%-16%. In other words, out of 100 words, 16 words should be your keywords! You can check your keyword density by using a tool from www.keyworddensity.com.

Strategy #3: Submit Your Site to All the Search Engines

Once you have optimized your site using keywords and inbound links, your site will get indexed even faster if you submit it to all the possible search engines and directories. You can submit your site manually by going to the search engine homepage or by using powerful submission software like Webposition Gold (www.webpositiongold.com) that will do it automatically for you.

Other than the major search engines like Google, Yahoo! and MSN, there are hundreds of others like Metacrawler (www.metacrawler.com), Dogpile (www.dogpile.com), Ask Jeeves (www.ask.com), Alta Vista (www.altavista.com) and so on... The great thing is that the more search engine listings you have, the more incoming links you will have, boosting your link popularity even more!

2. Posting Links on Related Websites

Besides giving you a higher link popularity, posting links on related websites will obviously bring you additional free traffic!

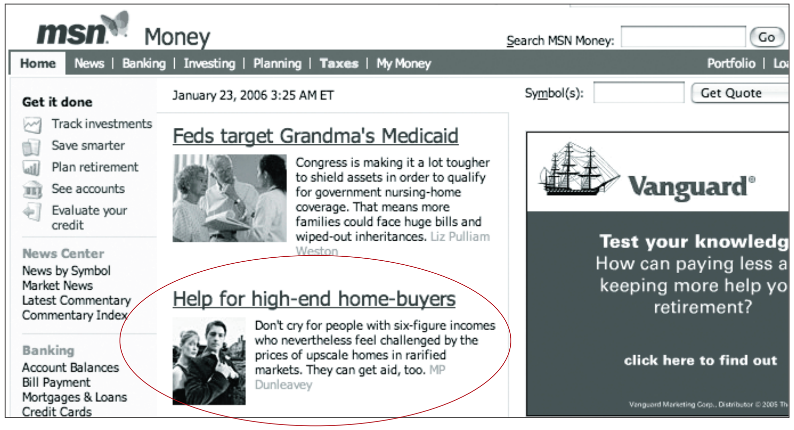
3. Give Away Free Valuable Information

The best way to get plenty of free, highly targeted traffic is to write articles packed with valuable information relevant to your target audience & get permission to post it on other high traffic websites that your target audience visits.

When your target audience read the article, they will be interested to know more about how you can help them (if your article is compelling) and you would have positioned yourself as the authority. At the beginning and end of the article, you must place a link 'About the author' which will drive them to your website as that is where you can sell them your products/services and make your profit.

For example, if you go to www.moneycentral.com (the largest and most popular money site on the Internet), you will see different articles being posted on the homepage. Visitors interested in the topic will click to read the article and find out more. On a particular day, an article on 'Help for high-end-home-buyers' written by M.P. Dunleavey was posted.

Screen Capture of www.moneycentral.com



So, search for & contact relevant sites and get them to post your article. Most websites will be happy to post your article as website owners are constantly looking for new, refreshing content that will add value to their visitors. There are also hundreds of free content sites where you can post your articles. Free content sites like www.articlecity.com and www.freesticky.com are where website owners come and look for articles to put up on their site.

4. Viral Marketing (Word of Mouth)

In traditional business, the best way to get new customers is through the word of mouth of your existing satisfied customers. In the online world, this is known as viral marketing. Viral marketing is the strategy of getting your existing base of visitors to refer your site to their friends and in turn get their friends to refer your site to their friends and so on. This was how hotmail managed to get millions of users in just a few months. If you notice, every time you receive an email from a friend's hotmail account, it will have a link that says 'click here for your free email'. By sending you that email, your friend has unknowingly promoted hotmail to you!

So how can you use this? All you have to do is to give away something of value to your existing visitors like a free article, newsletter or sample of your product. At the end of this article, place a link that says 'click here to share this with a friend' or 'click here to email this article to a friend'. Once they click it and email your valuable product to their friends, you would have been automatically promoted!

5. Advertising on Free Classified Ad Sites

Finally, you can get free traffic by posting online classified ads on free classified ad sites like www.classifiedsforfree.com. Although it is free but to get any noticeable impact, you must place it on hundreds or even thousands of classified ad sites. I recommend using a software called 'Power Submitter' that will automatically submit your ad to 200+ classified ad sites very efficiently.

Paying for Traffic through Advertising

Most people ask why they should pay for traffic when they can get it free? Well, the answer is that advertising gets you traffic instantly and the quality of leads is usually much better (more focused), leading to higher sales conversion. As a smart business owner, you must treat advertising as an investment and not an expense. For example, if you paid $10 to attract 100 people to your website and it resulted in one sale that made you a profit of $40, would it be worth it? If spending $10 made you $40 in return, how many $10 dollar bills would you invest? The answer is as many as possible! The secret is knowing how and where to advertise so that you can get the highest return on your investment as possible!

Strategy #1: Advertising on Search Engines

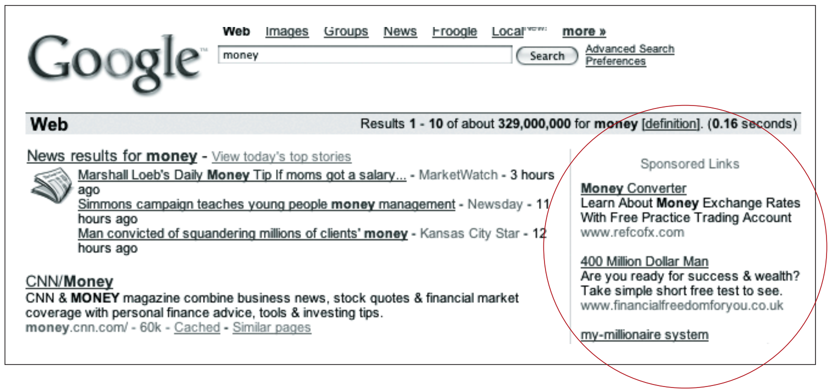
Advertising on pay per click sites can help drive droves of targeted traffic to your site. As long as your 'Return on Investment' in advertising is positive, it will lead to higher profits. However, if your 'Return on Investment' is negative, you will make losses.

To advertise on Google, you can sign up online at www.google.com/ads, pay with your credit card and have your ads running immediately. This advertising program known as Google Adwords requires you to pay only when someone clicks on your ad (pay-per click). As mentioned earlier, the pay-per click rate can range anywhere from $0.01 per click to $6 per click, depending on the popularity of the keywords you are advertising on. However, you don't have to worry about blowing your budget, as you will be able to pre-set your maximum daily budget. Once registered, your ads will appear in a variety of places, depending on your selection. For Google Adwords, your ads could appear under 'sponsored links',

which is found on the right-hand column of the Google search pages. Google will also place your ads in websites (that have signed up for Google Adsense) that have content that is related to your advertised product.

Screen Capture of www.google.com

Here is an example of ads that appear in the Google search page.



When you advertise on 'Yahoo! Search Marketing' (http://searchmarketing.yahoo.com), your ads will appear on the right-hand corner of the Yahoo! Search Pages, on the top of the search page and possibly on websites related to Yahoo! like MSN, CNN.com and Altavista.com.

Strategy #2: Advertising on Ezines

An Ezine is an Electronic Magazine which is delivered to people who ask for it (subscribers) via email.

Ezines deliver highly targeted traffic made up of people who will buy because they already know what you offer and are interested before they go to your site! These readers have expressed an interest in a particular subject and have asked to hear more about that subject.

Ezines are published on a variety of schedules, including daily, weekly, bi-weekly, monthly and occasionally, or when the publisher feels like it and has something meaningful to say.

Strategy #3: Join an Affiliate Program

In the earlier chapter, I mentioned how you could make money selling other people products as an affiliate marketer. Conversely, you can join affiliate networks and sell your products/services through thousands of other people who want to become your affiliates. Similarly, you pay commissions to your affiliates of between 10%–70% (it is all up to you) and you pay the affiliate networks a commission of about 7%, only when you sell your product! As mentioned previously, some of the larger affiliate networks you could check out are Commission Junction (www.cj.com) and www.clickbank.com.

Strategy #4: Advertising Offline

Although your business is online, it doesn't mean that you cannot tap into the power of traditional advertising. So, put your Website Address on as many places as you can. Remember to prominently put your URL on all forms offline marketing materials and give people a compelling reason to visit your website. Offer a valuable free gift if they visit your site such as a free article, software, ebook and so on. Here are a few places you can put your Website Address.

- Classified advertisements
- Brochures
- Flyers
- Direct mailers
- SMS
- Business cards
- Letterheads
- Invoices
- Badges, mugs, pens and fridge magnets
- Signage, posters and billboards

Step #9 Create an Opt-In List of Customers

Once you successfully have visitors flocking to your site, you can expect a conversion rate of 1%-3%, given a credible looking site with persuasive sales copy. In other words, for every hundred visitors, you can expect to sell one to three units, depending on the price of your product.

But, wait! What about the other 97% who did not make a purchase? Are they gone out of reach? To most Internet business owners, these browse but did not buy visitors are as good as gone.

However, smart entrepreneurs know that most people do not buy during their first visit to a store or the first time a salesperson asks for the sale, especially if it's a specialized and expensive product. Most people need time to consider, compare your product with other stores or they may not require your product right now, but may well do so in six months.

Instead, of waiting and hoping that they will return, you must take the proactive step of finding out who they are, getting their contact information and follow up with them regularly until they buy! This is very difficult, time consuming and expensive in the brick-and-mortar world (imagine calling your walk-in prospects every week), but is extremely easy online.

Experts in consumer psychology state that it takes at least seven exposures to a sales message before an average consumer will buy. It is no wonder that successful salespeople know the vital importance of nurturing a relationship with their prospects and regularly following up until their buy! They know that if you don't proactively follow up, it is very rarely that the prospective customer will come back as they will be bombarded by hundreds of new sales messages and websites once they leave. You have to put your business and your product at the top of their mind so that when they are ready to buy, you will be there to sell it to them.

But wouldn't this be annoying to the prospect? Wouldn't constant follow ups put him off ever wanting to buy? Absolutely, if it is not done properly! However, if you give the prospect something of value with each follow up and always give them the option to be removed from your follow up list, it then becomes an extremely powerful and effective strategy for getting the sale.

Capture their Email Address with an Irresistible Offer

The first step is to capture the email address of every single visitor to your website. Obviously they are not going to just give it to you as most people rightly fear being hounded by spam emails. The only way they will ever give you their contact information is if you offer something of genuine value, something irresistible! In addition, re-assure them that their email address will never be sold or traded to any other parties and that they can opt-out of your mailing list at any time!

So what can you give that will be highly valued by your prospects? The best product would be specialized information. Remember, most people go online to look for information to solve their problems and reach their goals. In addition, informational products are of zero costs and can be delivered instantly. If you own a financial brokerage portal, offer information on 'How to select the stocks that will outperform the market in 2006' or if you run a real estate portal, provide a special report on 'Valuable tips on sniffing out the best property deals in town'. If you are selling pottery, you could provide valuable tips on how to nourish plants and produce beautiful blooms. The information you give should be related to the product you are selling and should subtly position you as the expert and promote your products.

You can offer this high value information in the form of a free downloadable video, ebook, audio recording or special report. You can also offer a free monthly e-newsletter. The best thing about a newsletter is that it gives you a great reason to contact them every month with new updates about your website and product offerings. By placing a link back to your site on every newsletter, there is a high chance they will return often and eventually buy one of your products.

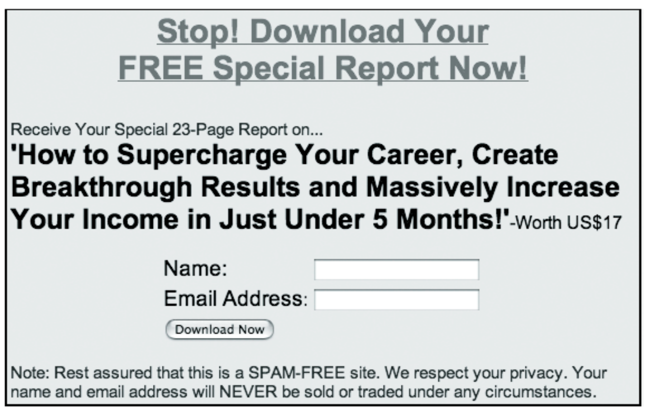
In order to capture details, you will need to get software that will allow you to generate a web form where they can enter their name and primary email. I suggest that you go to www.aweber.com. At this site, you will be able to customize a web form, copy the HTML code and paste it on your website. At Aweber, you can also set up an auto-responder email that will be sent to your

subscribers thanking them for their subscription the moment they submit the form.

Here are a few examples of web forms that capture email addresses. Do bear in mind that you have to provide a valuable offer for people to subscribe and always state a privacy policy to allay their fears of spam.

At successwithnlp.com, I offer visitors a special 23-page report on how they can massively supercharge their career and massively increase their income. If you visit my site (as well as the site of other highly profitable businesses), you can see that a great place to put your opt-in web form is after you have aroused their interest sufficiently.

Screen Capture of www.successwithnlp.com



Alternatively, you can also put your opt-in web form as a 'pop up' screen or a hover ad (which cannot be blocked) like Rosalind Gardner has done at www.superaffiliatehandbook.com. So the moment someone enters or leaves your site, the opt-in page jumps right out at them.

Another strategy is to structure your entire home page as a huge opt-in web form. In order to enter your website, they have to first enter their particulars. Of course, this could also backfire with people leaving without ever viewing your actual site. An example is given below at www.ebookgenerator.com

Screen Capture of www.ebookgenerator.com

Step #10 Build a Relationship with Your Customers Until They Buy

So, what do you do once you have collected all these email addresses? The answer is to build a relationship with each prospect by sending regular follow up emails. You could start by sending emails once a week, then once a fortnight and then once a month.

With Aweber Communications (www.aweber.com), this entire process can be fully automated so you don't have to manually remember and send out emails when the time is due. You simply have to write a whole series of emails or newsletters upfront and then program the software at Aweber so that it will send these auto-responder emails to your customers at whatever time periods you specify.

Again, the most important thing to remember is that every time you send your customer an email, it has got to contain valuable tips, information, or updates. If it is merely a sales message, chances are they will get put off and delete it. However, if it is of value, they will appreciate your efforts and will definitely return when they decide to buy. Again, if you are in the financial brokerage business, you could send your prospects weekly updates on the hottest and most undervalued stocks analyzed. If they want to get the full analyst report on each of these stocks and take advantage of your brokerage services, they will be invited to sign up!

Finally, always include a link that allows them to unsubscribe from your mailing list. This will add to your credibility and professionalism.

So, there you have it, the ten basic steps to building a profitable online business. As a successful entrepreneur, especially in the online world, remember that knowledge is power and it is highly important to continue to invest in your education by keeping up to date with the latest trends and strategies in your industry and on Internet marketing as a whole. For more information, do visit www.internetmarketingsingapore.com or come attend our live Internet marketing seminars conducted by Stuart Tan, Singapore's #1 Internet Marketer.

MANAGING MONEY & CONTROLLING EXPENSES

section V

chapter 13

The Number One Principle of Self-Made Millionaires

Welcome to chapter 13! Congratulations for making it half way through the book. Over the last six chapters, you have learnt a whole treasure chest full of powerful & proven strategies that you can immediately use to massively increase your income by five to ten times. Do you feel excited by what you've learned so far? Are you ready for streams of cash to flow into your hands? Well, here's some good and bad news.

The bad news is that no matter how much money you earn, you will not become wealthy unless you master the number one principle of self-made millionaires. The good news is that once you have mastered this principle, the wealth you create will not only be sustained, but will grow exponentially over the years, whether you decide to keep working or not.

This principle may be the most un-sexy, unexciting & often ignored but it is the most critical! Here's why...

When Unmanaged, Expenses Always Rise to the Level of Income

Why is this such a critical money skill? Because, when our spending is uncontrolled, our expenses always tend to rise up to match our level of income. No matter how much we earn. If we earn $2,000, we will find a way to spend over $2,000 and end up broke. When we start earning $10,000 a month, we believe that we deserve a more swanky car, to dine in up-market restaurants, a grander lifestyle and soon enough the $10,000 will be all gone and we would end up starting from scratch again. I have seen this pattern repeated in many intelligent people I know, some of them even my close friends. When unmanaged, whatever additional income we earn just seems to disappear without a trace... doesn't it?

Remember what we said in the earlier chapters? It is not how much you earn that will determine your wealth. More importantly, it is how much you are able to save and invest!

The Way Millionaires Really Live…

So why do so many people fall into this trap of squandering the wealth that they should be building up? Again, it is because for many people, their perceptions about wealth have been severely distorted by the media. Remember, I touched on this earlier in 'Chapter 4: How the Rich Manage Cash Flow'.

Many people have the wrong idea about what being a millionaire is all about. Many also equate instant gratification with happiness. They believe that millionaires live lavish lifestyles and all that self-indulgence brings lasting happiness. Well, from my research and my own observations of the many self-made multi-millionaires I know, I find that most self-made, sustainable millionaires DO NOT live this way. What does sustainable mean? It means a person whose millions of dollars will last a lifetime and not just a couple of years.

So, if self-made, sustainable millionaires do not live this way, then who are the people who do? Those who tend to live lavish lifestyle tend to fall into the following categories…

1. The False Rich

These are usually made up of professionals and corporate executives who earn a high income, but who spend just as much. They are the ones who drive the latest luxury cars, fly first class and dine at the finest restaurants. They appear rich and successful. However, the sad truth is that they are poor accumulators of wealth who have few positive cash flow assets. They roll their credit cards and have huge credit lines. Their bankers love them. As a result, they are usually just one to two paychecks away from being broke.

2. Those Who Inherited their Millions

These are a bunch of lucky bums who did not have to break into sweat to earn their money. Such instant millionaires usually do not understand the value of money, as they never had to slog for their millions. And, as a result, they spend like there is no tomorrow. This is why it has been proven time and again that inherited wealth never lasts past the third generation.

Those who strike the lottery also fall into this category. Because it was pure luck and not financial intelligence that thrust wealth on them, most of them tend to lose it all within a few years, and end up deeper in debt than ever before.

3. Highly Talented Celebrities

These are the ones who earned their millions not because of their financial intelligence but because they were blessed with a spectacular talent in singing, acting or sports. Because millions come easily to these stars, they easily spend it all. Unfortunately for them, no matter how much they earn, many eventually wind up broke and in debt.

Some sad examples are Mike Tyson, MC Hammer and Michael Jackson. Mike Tyson earned over $500 million over a few short years as the undisputed heavyweight champion. Because of his lavish lifestyle of luxury cars, huge mansions and Bengal Tigers, he ended up filing for bankruptcy. Pop star MC Hammer who sang the hit single 'You can't touch this (maybe he meant his money)' made over $33 million in his career, but he too filed for bankruptcy.

King of Pop Michael Jackson earned over $700 million in his illustrious career. However during his molestation trial, his accountant testified that he spent $20-$30 million more than he earns every year, took loans of more than $415 million and is facing a severe cash crunch, causing him to default on his loan payments.

They are no end to stories of sports celebrities and movie stars who have earned hundreds of millions within a few short years and ended up broke and deeply in debt in an even shorter period of time. Why? Because lacking the 'million-dollar mindset', they could neither manage their money nor rein in their runaway expenses.

Now, it's unlikely that anyone reading this book is in the celebrity or inherited wealth category but if you just happen to be, then know that like all self made sustainable millionaires, if you want your wealth to last a lifetime, then you must master...

The Number One Principle of Self-Made Sustainable Millionaires

The number one trait that all self-made, sustainable millionaires possess is that they are very FRUGAL and they live well BELOW their means.

In the New York Times Best-seller, The Millionaire Mind, Thomas Stanley who interviewed over 733 self-made American multi-millionaires (those who had $10 million or more in net worth), was shocked to find that they did not live and spend like most people thought they did. None of them spent more than $399 on a suit. They did not drive the latest models of cars. In fact, majority drove locally made cars that were over ten years old. And all of them lived on a specific monthly household budget.

How Do The Richest Men in the World Live?

Officially, Bill Gates is ranked as the richest man in the world with a net worth of $46 billion. Unofficially, figures put IKEA founder

Ingvar Kamprad as the world's richest with a net worth of $53 billion. One of the reasons he managed to accumulate so much money is because of his frugal nature. Up to today, it is said that Kamprad flies economy, drives an old Volvo and even waits until the afternoon to buy his fruits and vegetables, when the prices drop significantly.

If he were alive today, Sam Walton (1918-1992), founder of Wal-Mart would be the richest man in the world with an estimated net worth of $90 billion. If you take a look at Forbes list of the ten richest people in the world, five of them are the Waltons who inherited their money from Sam. How did this once poor farm boy accumulate so much wealth? Again, he was well known for sharing rooms during business trips to save money, flying only economy and wearing clothes from his own discount store.

Another fascinating example is Warren Buffett, officially ranked the second richest man in the world today with a net worth of $42 billion. Even with all this money, it's said that Warren will not buy a brand new car as he thinks it's just not worth the money. Back in the '60s, Warren remarked that if he spent $20,000 on a new car, it would be worth little or nothing in ten years, He also knew that he could achieve a 25% annual compounded return on his $20,000 if he were to invest it. Going by this return, investing $20,000 would bring him $158,518 in ten years, $1.26 million in twenty years and $9.96 million in thirty years... he figured that $9.96 million was just too much to waste on a car!

Simple but Not Stingy

One important point to note is that although many self-made millionaires are simple, some even frugal, they are not necessarily stingy. They would not spend on something if they felt that it was extravagant, unnecessary & wasteful. However, when it came to necessary expenditures or worthy causes, they would not hesitate. In fact, many millionaires believe that giving to charity is a very worthwhile cause and they would rather give it to the needy and make a positive difference to the disadvantaged in the community than to just spend it on a designer suit.

A great example is Singapore's late philanthropist Lee Kong Chian who started out in life as a school teacher. Even when he

had built up the Lee Rubber empire (its philanthropic arm is Lee Foundation), Dato Lee used to go to work dressed like one of his clerks and on the days he didn't have to meet overseas visitors, he would even wear soft Chinese shoes. He never flaunted his wealth recalls my maternal Grandpa Lau who worked in Lee Plantations.

But he was a very kind and generous employer and he set such a fine example that my Grandpa Lau felt moved to emulate his boss's generosity. "We were all paid a small monthly salary but our bonuses in those days (the 1950s) was in the tens of thousands." Just as Dato Lee had rewarded his managers handsomely, so my grandpa in turn wanted to give the clerks in his section an extra reward for helping him perform so well. Grandpa Lau bought shares for his clerks using a portion of his bonus and those who kept those shares (most of which were blue chip ones and very cheap in those days!) instead of cashing them in, became millionaires. Grandpa Lau today, he will be 90 in 2006, although a millionaire in net worth still drives a 25 year-old battered Suzuki car.

They Love Making It... But Hate Spending It

When many people learn of this frugal trait of millionaires they often think to themselves, 'Why make all this money if you cannot enjoy it?' Well, here's the answer, most millionaires get their joy and fun not from spending money but from doing what they love to do! (Remember millionaire habit 5?) To them, money is just a means of measuring their success.

This is why, even with all the money in the world, they still work hard to build their businesses and empire. This is because they are driven by passion for what they do and a sense of mission. If spending money brings you enjoyment, you will never be rich. However if making money brings you enjoyment, then your wealth is guaranteed.

The Impact of Saving... on Your Future Wealth

If you think about, many people will make over a million dollars in their lifetime! If you were to earn an average income of $3,000 a month ($36,000 a year) over 40 years (age 25-65), then you would have a total of $1.44 million ($36,000 x 40 years) flow through your hands.

If you were like most people who spend all they earn, you will end up after 40 years with almost nothing. But what if you were to just save 10% of that income every month and invest it in stocks and mutual funds that earn you a 15% return a year and let your money compound? (you will learn just how to do this in the next section... hang on). How much would you have after 40 years?

Using a financial calculator, you can easily compute that you would have accumulated $6.914 million! What? Is that right? Is there something wrong with my calculator? No! Through the power of compounding, saving just $300 a month accumulates to over $6 million in 40 years! That is the power of consistent saving and investing.

I Will Start When I Have More Income

Most people feel that they do not have enough income to invest so they procrastinate by saying, 'I will start when I earn more!'. Trust me, this is impossible. If you cannot save ten cents out of a dollar, you will not save $100,000 out of a million. If you cannot start with a small income, forget it when you have a bigger income. Remember that if you do not start the habit of saving and investing, you will end up with a lot more expenses when you earn more.

Stop procrastinating! Start right away! Every day you delay is costing you hundreds of thousands of lost dollars in your future. Let's look at the impact of procrastination...

If you were to save $300 a month for 25 years at a 15% annual return, you will have $826,968 in the end.

If you were to start just one year later and save $300 a month for 24 years at the same 15% return, you will end up with $715,723. That's $111,245 less! In other words, waiting one year will cost you $111,245 in future dollars. This is equivalent to losing $304.78 ($111,245 divided by 365 days) of future wealth every single day you procrastinate! Can you afford to do that?

So get ready to start increasing your monthly savings right away! To do this, you must first learn how to manage your money and reduce your expenses. Let's explore this in the next chapter...

chapter 14

Strategies to Manage Your Money & Control Your Expenses

The first step to take to increase your savings is to start reducing your expenses. So what is the first expense you must reduce and eventually eliminate? It is the interest expense you pay on consumer debt.

Eliminate Consumer Debt If You Want to be Rich

While taking on a reasonable amount of consumer debt is necessary for you to afford a car and a house, you must avoid taking on too much for too long a period.

Why? Because a 5%–6% interest rate may seem small but over an extended period of time, it compounds to a huge amount of money. You will find yourself paying tens of thousands of dollars in installment payments every month just to see that the principal sum you owe go down by a couple of hundred dollars.

For example, let's say you bought a $250,000 apartment and took a $200,000 mortgage at 6% stretched over 30 years. If you just paid the minimum installment payments every month, how much would you have paid in total interest?

The answer: Using a financial calculator, you can see that you will pay $1,173 in monthly installments for 30 years. That's a total of $422,280 in installment payments! You would have paid a total of $222,280 in interest to the bank. That's like buying two apartments and giving the bank one!

> If You Took a $200,000 Loan Over 30 Years at 6% Interest, You Would Pay a Total of $222,280 in Interest… Even More than the Loan Amount Itself!

So besides paying the minimum required monthly installments (like your bank wants you to), you must constantly PAY MORE to further reduce and eventually eliminate your principal sum… or you will wind up donating hundreds of thousands of dollars to your bank over the long term!

Avoid Multiple Credit Cards & Credit Lines If You Do Not Want to be Financially Destroyed

Most of all, you must avoid consumer debt with interest rates above 6%, especially credit card, overdraft and credit line debt that averages 2% a month. That may look small, but it adds up to 24% a year! You are allowing the banks to earn Warren Buffett returns off you!

Credit Cards… A Powerful Wealth Tool

Am I saying that you should not use credit cards for your purchases? No! In fact, when used properly, credit cards are a very powerful wealth-building tool! I use credit cards for every single possible purchase.

By using credit cards you get…

1. A two-months interest free loan
When you buy a product using your credit card, you will only be billed for it at the end of the month. You are then given another month to make payment. So, if you pay off your total bill, you would have effectively gotten a two-month interest free loan.

2. Bonus points and dollars
Each purchase you make on your credit card(s) will earn you bonus points which you can use to redeem for free products and services like extra flyer-miles, retail, shopping and dining vouchers, saving you even more money.

3. A monthly statement that tracks and consolidates all your expenses
At the end of every month, the credit card company will tabulate for you the total expenses for the month, making it easy for you to track your total expenditure. So it becomes a free money management tool.

However, you **MUST ALWAYS PAY THE OUTSTANDING BALANCE** when you pay the full balance every month. This way, the bank does not earn a cent off you, but you get the three great wealth building services mentioned above. This is what I do and that is why my bankers hate me.

Credit Cards… Powerful Wealth Destroyer

So why do banks go all out, giving freebies and spend millions of dollars in advertising to hook you on using their card? They know that there are many consumers out there who just pay the minimum sum every month (about 3% of the total debt you owe), because it is so tempting. What's worse is that many credit card owners don't even pay their minimum sum on time because of a cash crunch or because they plain forget.

The moment you pay only the minimum sum and allow your outstanding balance to roll, you become the bank's best friend. This is when they will make a killing off you! Why? This is because banks charge a 2% per month interest on your outstanding sum. This may seem small, but again, that's 24% interest a year. Just how much interest does this add up to? Let's do the sums…

Question: Imagine if you had an outstanding balance of $2,000 on your credit card statement, and you just pay the minimum sum of $60, how long will it take for you to pay off the whole balance? (this is only assuming you do not charge a single dollar more).

The shocking answer: It will take you 4.5 years! You would have paid a total of $3,300, that's $1,300 in interest. In other words, you would pay an actual interest rate of 65% off your balance.

3 Steps to Reduce & Eliminate Your Debt Immediately…

So, you must start taking immediate action to reduce your debt and interest expenses. Here are three things you must do…

1. Besides your primary housing and transport, avoid all consumer debt from now on! Never borrow to spend.
2. Pay only with cash. If you pay with credit cards, pay off the total balance each month.
3. Take the first **10%** off your monthly income and use this to reduce your principal sum on your outstanding loans. This is **in addition** to the required monthly installments you already pay. You will learn in the next chapter that you should take the next 10% and invest it.

Six Strategies to Effective Money Management

Before you can ever reduce your expenses and increase your savings, you must first know where your money is going to. Many people share the same experience of having no idea where their $5,000 salary went. 'How did I spend so much money?', 'I thought that I should have $1,000 left at the end of the month, but it seems to have all disappeared!'.

You must use a system to track where every single dollar goes. Only when you know where your money is going, can you take steps to channel it to your savings and investments.

Doing this month after month may seem tedious, but it is absolutely necessary if you want to build your wealth. Only when you develop the habit of managing your personal finances, can you manage the finances of your own business. So many people financially mismanage their businesses into bankruptcy because they mismanage their own finances. Don't be one of them!

15 Minutes A Day Will Make the Million Dollar Difference

With a simple yet powerful system which I personally use together with specially designed Microsoft Excel templates like the 'Monthly Personal Income Statements' and 'Daily Expense Sheets' (you can download this from my website at www.adam-khoo.com), you just need to invest fifteen minutes a day to manage your money.

If you want to be wealthy, do not expect it to happen automatically. You must commit to spend time on your finances. Earlier on in this book, I talked about the millionaire's daily hour. Millionaires spend an average of an hour a day on personal wealth management, while most people spend less than an hour a month, usually on paying bills.

So out of this one-hour a day, you've got to devote the first fifteen minutes to do these five Money Management Steps...

1. Always Ask for a Discount

If it is not a fixed price store, there is a 70% chance that you will get a discount if you just ask for it. If you get a 10% discount, it is equivalent to earning an immediate 10% return on your money. Over the long term, you will save a huge amount that will accelerate you even faster towards your targeted net worth.

2. Always Ask for a Receipt

Always get a receipt so that you can track every single expense at the end of the day and, if possible, claim it as a business expense and get a tax deduction.

3. At the End of the Day, Record all Expenses in your Daily Expense Sheet

You can do this manually in the sample 'Daily Expense Sheet' shown below or you can key it in electronically into a template (again, you can download this daily expense sheet template at www.adam-khoo.com).

I highly recommend you key it into an excel spreadsheet, so it can automatically add up the total each month.

Sample Daily Expense Sheet

Your Daily Expense Sheet		
		Date
Item	Cost	Category
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
Total Cost		

Categories would be housing, food, recreation, transport & insurance

4. Use a Credit Card Whenever You Can (but always pay the full outstanding sum every month)

Again, this will allow you a convenient way of having all your expenses recorded for you in the monthly statement.

5. At the End of the Month, Update Your Monthly Income Statement

At the end of every month, add up the total expenses from your daily expense sheet and update your monthly income statement (look at the sample in chapter 5). At the same time, update all your income for the month. Deduct your total expenses from your total income to get your monthly savings.

Again, you can use the sample by downloading the excel template on 'Monthly Income Statement' from www.adam-khoo.com.

Great! Once you have a system for tracking your money, you can move on to the next step... reducing unnecessary expenses and increasing your savings. Here are six ways to do just that...

6 Ways to Massively Reduce Your Expenses & Increase Your Savings by 20%-30%

1. Study Your Monthly Expenses

Remember the personal income statement that you completed in chapter six? Well it's time to study the expense column very closely and identify where you can cut your expenses. You will be surprised to know that we can easily do without between 20%-30% of our monthly expenses.

'Dispensable expenses' are stuff we buy on impulse to get a ten-minute gratification, and after that it would not make much difference to our lives.

Or in browsing through glossy flyers and advertisements, we get attracted to special offers on stuff we do not really need. But we buy simply because it seems like a good deal. You must eliminate these expenses as, over the long term, it will cost you millions of future dollars.

So, once again I want you to fill up all your current monthly expenses in the 'Monthly Personal Expenses Statement' on the next page. You can copy it over from your personal income statement from chapter five.

Then ask yourself, 'do I really need this?' 'Can I do without this?' 'Is there a cheaper alternative?'. For example, instead of paying $5 for that gourmet cup of coffee, can you get a cup from the shop next door for just $1? (that's a 80% savings immediately). Instead of watching a movie on a weekend that will cost you $15, can you watch it on a weekday for $7? In the next column under 'wasted money?', indicate if the particular expense can be eliminated totally or at least reduced.

In the next column, you have 'New Expense'. Here, fill in your new expenses, after deducting your old unnecessary expenses. Finally, in the last column, add up the total amount you will save by sticking to your new budget.

Monthly Personal Expenses Statement

Item	Current Expense	Wasted Money? Eliminated? Yes/No	Wasted Money? Can this be Reduced? Yes/No	New Expense	Extra Monthly Saving
PERSONAL					
Dining out	$			$	$
Clothes	$			$	$
Entertainment	$			$	$
Hand phone	$			$	$
Insurance life/medical	$			$	$
Personal taxes	$			$	$
Others (eg. Donations)	$			$	$
CHILDREN					
Education (school, tuition)	$			$	$
Allowance	$			$	$
Clothes and toys	$			$	$
HOUSING					
Mortgage	$			$	$
Utilities	$			$	$
Maid	$			$	$
Groceries	$			$	$
Property tax	$			$	$
House insurance	$			$	$
TRANSPORT					
Car installment	$			$	$
Petrol	$			$	$
Maintenance/ servicing	$			$	$
Car insurance	$			$	$
Road tax	$			$	$
Season parking	$			$	$
Public transport	$			$	$
Total	**$**			**$**	**$**

You would be amazed at the impact that a few extra hundred dollars in monthly savings will have on your future wealth. This next table shows you that a $300 extra monthly savings would accumulate into an extra $1.69 million in thirty years. An additional $600 saved would grow into an additional $3.38 million in thirty years, more than enough to retire on.

Extra Monthly Savings Invested at 15%	10 years	Future Value 20 years	30 years
$300	$78,905	$398,122	$1.69m
$600	$157,810	$796,244	$3.38m
$1000	$263,018	$1.33m	$5.63m
$2000	$526,036	$2.65m	$11.26m
$5000	$1.32m	$6.64m	$28.16m

2. Pay Yourself First

Most people adopt the earn-spend-save habit. In other words, when they get their monthly income, they will spend on all their committed and impulse expenditures. Whatever they have left at the end of the month is what they save. Even if they set aside a budgeted expenditure, this strategy seldom works. Why? Somehow, something unexpected might come up that causes people to spend whatever they have, leaving nothing to be saved.

Instead you must adopt the Pay Yourself First habit. Before you pay the grocer, the restaurant, the utility company, the TV repairman, you have to put aside a fix amount into your investment account. Then, spend whatever you have left.

In other words, you must earn-save-spend. The moment you earn your income, you must immediately put aside 10%-20% into a separate investment account. Then live off the rest of the 80%!

The best way to do this is to make it automatic! Instruct your bank to automatically transfer 10%-20% of your income into a separate investment account where the funds are not easily accessible. This investment account should not have an ATM card where you can draw it out. You should only have a checkbook which you use to pay for investments.

Now, if you have got any form of consumer debt, you must modify this formula a bit. Deduct the first 10% and use it to pay off part of your principal loan. Then take the next 10% and put it into your investment account.

3. Stop Before You Buy & Procrastinate

Before you buy anything, always stop and ask yourself the following questions:

- 'Do I really need this?'
- 'Will I regret buying this three days later?'
- 'How many hours do I have to work to make back the money?'
- 'How much will this cost me in future dollars?'

Then, procrastinate in making a decision on whether to buy or not to buy. Say to yourself, 'I'll think about it and come back tomorrow'. Eight out of ten times, you will not go back and spend that money as you will probably forget about it.

The best way to stop being a shopaholic is to get yourself so busy in purposeful and fulfilling work – especially meaningful volunteer work – so that you don't go shopping until you really need a particular item. Many shopaholics admit their weakness is due to spending their free time wandering the shopping malls. So, find a meaningful way to occupy your free time and you will stop wasting your money.

4. Destroy All your Credit Cards but One

This next step will be painful but I guarantee it will shave off at least 15%-20% off your monthly expenses. Cut up all your credit cards but just leave one. With lots of credit cards, you will have easy access to lots of tempting credit. Just use one card with limited credit for all your expenses... and again, pay the full balance.

5. Plan your Purchases... Only Buy at a Discount

You would easily save another 15%-25% if you were to plan your purchases, buying only when there is a special discount and buying in bulk. Remember the example I gave you earlier about Ingvar Kamprad, the founder of IKEA? He would only buy vegetables and fruits in the afternoon, when the prices have dropped significantly.

As a kid, I observed my dad stocking up on toothpaste whenever the supermarket had a special promotion. He would stock enough toothpaste for six months until the next promotion. I also have friends who buy all their clothes twice a year, during the citywide sale. So plan your purchases with a three to six month horizon in mind and buy in bulk whenever there is a very special promotion.

6. Treat it as a Business Expense

Even if you are a full time employee, you should register a business for income tax reduction purposes. You can use this business entity for internet business purposes or to market your intellectual property.

With a business, you can take certain expenses like transport, entertainment, office supplies etc. and charge them as business expenses. Whenever you do, you get an automatic tax deduction. The higher your income tax bracket, the larger the savings. For example, if you pay 20% in personal income taxes, then every time you claim an expense as a business expense, you save 20%!

So there you have it, the six ways to reduce our expenses by 20%-30% immediately. Remember it will only happen if you start taking action on it right away! Only through the combined efforts of increasing your income and reducing your expenses can you save the cash necessary for you to invest and earn compound growth wealth that will lead you to financial freedom. So how do we invest our savings at millionaire returns? Let's find out in the next section...

BUILDING YOUR MILLION-DOLLAR NET WORTH

section

VI

chapter 15

Growing Your Money at Millionaire Returns

In the last two sections, you have learnt the most effective strategies to boost your income and control your expenses. The next step in the financial abundance formula is to take the surplus and invest it for compound growth.

All self-made millionaires utilize the power of investing to get their money to make them even more money. They get their money to start working for them so they can eventually stop working for money. Unless you master this money skill of investing, you will never be able to accelerate the building of your net worth.

Low Risk Leads to Extremely High Returns

However when it comes to investing, most people share the painful experience of getting burnt in the stock market or in mutual funds (unit trusts). 'If I had kept all my money in the bank, I wouldn't have lost half of it'. 'After so many years of buying and selling, I find that after all the effort I have merely broken even'. 'I should have kept the money in the bank instead'. 'Every time I buy a stock, it seems to go down'. Do you share this experience with most investors?

If so, you are one of many people who have developed a phobia of investing and have formed the belief that 'investing is risky'. As a result, you are resigned to keeping your money 'safe' in fixed deposits earning a measly 2%-3%.

This belief is compounded by the fact that we are taught by finance courses, banks and financial advisors that 'High risk leads to high returns'. In order to earn high returns, you must be a risk taker!

This is totally rubbish! All of us have been brainwashed by this inaccurate generalization. In fact, the greatest investors in the world are NOT risk takers. They are in fact, very risk averse. Warren Buffett, the world's greatest investor, who achieved 24.7% return per year for

the last 49 years is extremely risk averse. His fundamental principle in investing is 'capital preservation'. He would rather not make any money if there is a chance of losing it. His first rule in investing is 'Never Lose Money'. His second rule is 'Don't Forget Rule Number One'. As a result, Warren will only invest in a stock if it has very low downside and a very high probability of success of at least 90%.

Warren Buffett's Two Rules of Investing
Investing Rule Number 1 'Never lose money.'
Investing Rule Number 2 'Never forget rule number one.'

I follow the exact same philosophy. Again, many people perceive that because of the businesses I have started and the investments I make, I am a risk taker. In actual fact, my top value is 'security'. I am extremely risk averse and will only invest in a business or stock if there is a 95% chance of winning and even if I lose, the loss is negligible.

To be a winning investor, you must adopt this same principle! You must be risk averse! You must always follow the principle of 'capital preservation'.

Now, you may ask me, 'If high risk does not lead to high returns, then what does?'. The answer is 'financial intelligence'. High financial intelligence leads to high returns!

When you have high financial intelligence, there is little risk, because you know exactly what you are doing. When you don't have strong financial intelligence to fully understand the business behind the stock, then investing becomes very risky.

Risk is contextual. How risky an activity is depends on the level of competence of the person doing that activity. For example, if I told you to climb a mountain where there is a pot of gold at the top, would it be risky? Would you have to take a high risk to achieve the high returns? Yes! It is risky for you because you have never been trained in mountain climbing and do not have the necessary safety equipment. There is a high chance you will fall and die!

However, for a professional & experienced climber who has scaled Mount Everest twice without oxygen, would it be risky? No! Why? Because his high level of competence eliminates the risk. To him, it would be low risk, high returns.

Take another example, if I were to ask you to drive a formula one race car at 260 km per hour round the racetrack in order to win a grand prize, would it be risky? Again, to you it would because you are not trained. It would be suicide and I would recommend you not do it at all. However, to Michael Schumaker, it would be low risk and high returns, because he has been trained to do it.

So is investing risky? Again it depends. If you are like the majority of people who have not been trained and have low financial intelligence, then it is highly risky! It's like climbing that mountain with no training at all. Indeed, to them it is high risk, high returns. I would suggest that they keep their money in the fixed deposit.

However to Warren Buffett, investing is 'low risk, very high returns' because he has a high level of competence in investing. So again, you can see that high risk does not lead to high returns, it is high level of competence that leads to high returns.

> 'Risk comes from not knowing what you are doing'
> – Warren Buffett

In the next four chapters, you are going to learn the strategies of master investors. When you acquire a high level of competence in financial intelligence through this book you will find that you can take minimal risk and achieve extremely high returns. You will become like the professional climber who will scale the peak with little risk to get your pot of gold.

Which Investment Vehicle Gives the Highest Return?

So among all the many instruments we can use to grow our money, which one has achieved the highest returns over the last twenty years?

Investment	Annual Compounded Return (%)	Years to Double
Inflation (US)	3.7 %	
Inflation (SG)	3.2 %	
Fixed Deposit SG (3-year)	1.5 %	
US Treasury Bills (3mths)	4.5 %	16 years
Gold	4.1 %	17.56 years
US Corporate Bonds	6.4 %	11.25 years
US Stocks (S&P 500)	12.08 %	5.96 years
Singapore Stocks (STI)	8.57 %	8.4 years

** Stock market returns are calculated on an annual compounding return basis with dividends reinvested. Abbreviations: US: United States and SG: Singapore*

For the last twenty years, the best investments you could have made are in stocks. They have achieved an average compounded annual rate of return of over 12.08% in the US, 8.57% in Singapore and 1.52% in Malaysia (based on the Kuala Lumpur Composite Index with dividends reinvested). This means that over the last twenty years, if you have just left your money in the US stock market, you would have on average, achieved 12.08% return on your investment every single year, allowing your money to double every 5.96 years!

If this is the case, why do most people lose money in the stock market? Again the answer is because they do not have the necessary financial intelligence. In the next chapter, you will learn that when you know what you are doing, you can achieve an average return of 12.08% risk free! That's right! Risk-free... no kidding.

Why US Stocks Give You Higher Returns with Lower Risks

While many Asian stocks provide great investment opportunities, I also allocate a large proportion of my portfolio to U.S. stocks for three main reasons.

Reason #1: Highest Long-Term Average Annual Return

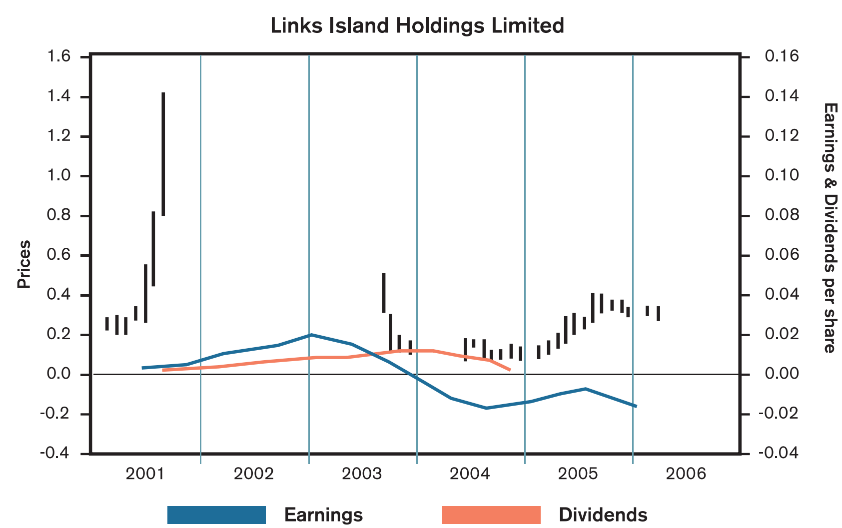
While stocks in Asian or emerging markets may post huge returns in the short term, it is the US market that has returned the highest average annual return over the long term. For example, US stocks have averaged a 12.08% annual return as compared to the Singapore

market that has returned only 8.57% a year over the long term. And I am sure you do not want to make lots of money in one year only to lose it all in the next five years.

Reason #2: High liquidity & Market Efficiency

Because the US stock market is so huge and there is so much money pouring into it, the market is a lot more efficient as compared to Asian markets in general. As a result, stock prices tend to follow stock earnings more closely. As long as you buy a good company with strong earnings, you are assured that the price will rise over time.

In Asian and emerging markets, where the market is small and where prices depend a lot on foreign institutional investors, stock prices may not reflect the value and earnings of the company. Even if a company has strong earnings, the stock price may be stagnant, because there is not enough liquidity, or cash in the market. At the same time, a company could be losing tons of money, but the stock price could be rising. This is because speculators who corner the small market are manipulating it.



This is an example of a Singapore company, Links Island Holdings Ltd. Although you can see that earnings were flat in 2000, the stock price shot up dramatically and subsequently crashed.

Source: www.corporateinformation.com

So, stock prices do not always reflect the true value of the stock and this is why genuine investors lose a lot of money. However, the lack of liquidity in Asian Markets also means that there is a greater opportunity to buy high-value companies at lower prices. OSIM International and HTL International, two highly profitable companies were once selling at 40%-50% off their intrinsic value.

Reason #3: Research Data & Tools Available

When analyzing US stocks, there are tons of free research data and investment tools available to individual investors. The same tools and information used by professional investors and fund managers are available to you! (you will learn how to use these tools in the coming chapters)

In this way, there is a level playing field and as long as you have the strategy, you can perform just as well or even outperform the professionals! In Asian and emerging markets, the professional and institutional investors often slaughter individual investors like you and I. This is because they will always have information that we don't and they will know it much earlier. By the time we receive the information in analyst reports and the newspapers, it is often too late!

20-Cent Stock or $50 Stock: Which Is Cheaper?

Many investors have the mindset that 'cheaper' Asian stocks are a better deal than 'expensive' US stocks. If I buy a 20-cent stock, I can buy 2500 shares. With a $50 stock, I can only buy 10 shares.

The truth is that the absolute price of the stock does not matter. What really matters is the potential percentage increase in the price, which depends on the earnings that the company makes.

For example, say you had $500 to invest. You could have two options. Invest in a 20-cent stock where you could buy 2500 shares or invest in a $50 stock where you can only buy 10 shares. Assuming both companies are equally as strong and post a 20% increase in earnings, this would probably cause the stock price to increase by 20%.

If you held the $50 stocks, the stock price will go up to $55, and you will make a profit of $5 x 10 shares = $50! If you held the 20-cent stock, the stock price will go up to 22-cents and you will make a profit of 2-cent x 2500 shares = $50. As you can see, the absolute price of a stock does not make a difference, you still make the same profit!

How to Buy and Sell US Stocks

If you are a US citizen or permanent resident, then you could trade US stocks by opening a trading account with any local broker.

As a foreign investor you could trade US stocks through your country's local stock broker. You can also easily open a US online brokerage account and use it to trade from anywhere around the world. Some of the most reputable and financially stable US online brokers that I use are Interactive Brokers LLC (www.interactivebrokers.com), Optionsxpress, Inc. (www.optionsxpress.com) and Ameritrade, Inc. (www.ameritrade.com).

How 12.08% per year Can Turn You Into a Millionaire!

Now, you may be thinking that a 12.08% annual return from the stock market is small. However, when allowed to compound over a period of time, it will turn small amounts into huge returns!

Again, imagine if you were to earn an average of $3,000 a month for your entire working life of forty years. If you were to just invest 10% of your income a month (i.e. $300) into the US stock market and allowed it to compound at 12.08%, how much would it grow to?

Using a financial calculator, you will see that $300 a month invested at 12.08% will grow to $3 million! And that's just from investing $300 a month. If you could invest $1,000 a month at 12.08% (I am sure you can easily create this additional income stream), it will grow to $10.02 million!

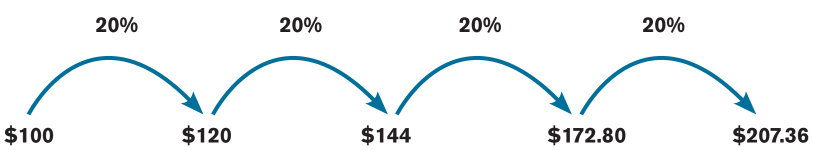
The Awesome Power of Compounding

How is this possible? How do small amounts of money grow into huge sums? This is the result of the awesome power of compounding. I am sure you have heard of this term before but what does it really mean to you?

Compound return is achieved when you invest a sum of money at a particular rate of return. Instead of taking out the interest earned after a year, you add it back to the principal sum and reinvest this larger

sum. So the next year, the rate of return is on a larger principal sum. This continues until the returns a year become greater and greater!

For example, say you invested $100 into a stock that gave you an annual return of 20%. At the end of one year, you would have $120. Instead of taking out the $20 profit, you leave it inside for another year at the same 20%. At the end of the second year, your investment would grow to $144. The next year, it would grow to $172.80 and on the fourth year, it would grow to $207.36!



In less than four years, your initial investment has doubled in value!

How Long will it Take Your Money to Double in Value?

Albert Einstein, the greatest genius of our time once remarked that compound interest was the greatest mathematical discovery ever made! He came up with a formula called the Rule of 72. It states that if you take 72 and divide it by the Annual Percentage return, it will give you the number of years your investment would double!

For example, in the previous case, the percentage return was 20%. So if you take 72 ÷ 20 = 3.6 years you will see your investment of $100 double to $200 in 3.6 years.

The power of compounding was Warren Buffett's secret weapon in creating the second biggest fortune in the world, purely by investing in US stocks. Warren achieved an average annual return of 24.7% for 49 years! This means that his money doubled every 2.9 years (72 ÷24.7). He turned an investment of $100,000 in 1956 into $4,200,000,000 ($4.2 billion) today.

Would You Bet 10-cent On A Game of Golf?

Let me give you another example to further illustrate the power of compounding. Let's say we played a game of golf and we made a friendly bet of 10-cent on the first hole, with the bet doubling on

each hole. Would you take on this bet? Now, if you were familiar with the game of golf, you would know that there are only 18 holes, so how much can the bet be on the 18th hole?

Well let's see how the bet increases on the first 9 holes:

Hole 1	10 cents	Hole 6	$3.20
Hole 2	20 cents	Hole 7	$6.40
Hole 3	40 cents	Hole 8	$12.80
Hole 4	80 cents	Hole 9	$25.60
Hole 5	$1.60		

At the 9th hole, the bet is $25.60. We are already half way there, so how much could it be on the 18th hole? $100? $300? $500? Let's go on...

Hole 10	$51.20	Hole 15	$1,638
Hole 11	$102.40	Hole 16	$3,276
Hole 12	$204.80	Hole 17	$6,553
Hole 13	$409.60	Hole 18	$13,107
Hole 14	$819.20		

As you can see on the 18th hole, the bet becomes a whopping $13,107! When given enough time, the power of compounding can turn very small amounts of money into huge sums.

A more important lesson I want to illustrate is that initially, the money grows very slowly. Even at the halfway mark, it is only $25.60. However, the moment it reaches a critical point, the growth becomes exponential! In fact, between Hole 15 and Hole 18, within just 3 holes, it grows from $1,638 to $13,107, a $11,469 difference!

What does this mean to you? You see when you start your investment program of say $200 a month, initially the growth is extremely slow. However, once it hits a certain period of time, the growth explodes exponentially! The trouble with most people is that when they see the slow growth during the first few years, they lose patience and abandon their investment plan. So you must have the patience to wait for the power of compounding to work for you and reward you with millions. The next page shows exactly how $300 saved a month will compound under different rates of return.

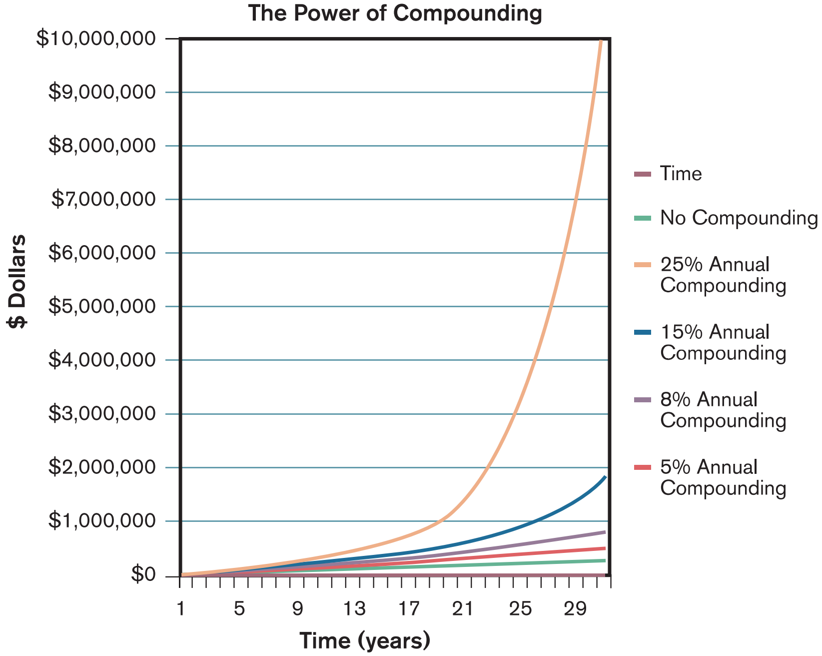
How $300 saved every month will grow under different rates of return within 30 years

- Without the power of compound interest, $300 saved every month would accumulate to merely $108,000.
- At a 5% annual compounded rate of return, $300 a month would grow into $245,609 (2.3 times the principal sum)
- At a 8% annual compounded rate of return, $300 a month would grow into $425,283 (4 times the principal sum)
- At a15% annual compounded rate of return, $300 a month would grow into $1.69 million (15.6 times the principal sum)
- At a 25% annual compounded rate of return, $300 a month would grow into a whopping $13.14 million (121.6 times the principal sum)

An example of what the graph looks like is shown below. Once again, notice how the phenomenal power of compounding starts off very slowly but starts to grow exponentially once it hits a certain critical point.

On the following page, there is a chart to show you how different amounts of investments grow under different rates of return.

The Power of Compounding



How Your Money Can Grow by Compounding

5% Annual Return	5 yrs	10 yrs	20 yrs	30 yrs	50 yrs
$50 a month	$3,456	$7,800	$20,423	$40,985	$129,035
$100 a month	$6,909	$15,599	$40,846	$81,970	$258,070
$200 a month	$13,818	$31,198	$81,692	$163,940	$516,141
$500 a month	$34,545	$77,996	$204,228	$409,849	$1.29m
$1000 a month	$69,090	$155,992	$408,457	$819,698	$2.58m
$1500 a month	$103,635	$233,988	$612,687	$1.23m	$3.87m
$2000 a month	$138,180	$311,984	$816,916	$1.64m	$5.16m
$5000 a month	$345,450	$779,960	$2.04m	$4.1m	$12.9m
$10,000 a month	$690,900	$1.56m	$4.08m	$8.2m	$25.81m
8% Annual Return	**5 yrs**	**10 yrs**	**20 yrs**	**30 yrs**	**50 yrs**
$50 a month	$3,721	$9,114	$28,683	$70,931	$359,055
$100 a month	$7,441	$18,228	$57,366	$141,861	$718,109
$200 a month	$14,883	$36,457	$114,732	$283,723	$1.44m
$500 a month	$37,207	$91,142	$286,830	$709,307	$3.59m
$1000 a month	$74,414	$182,283	$573,660	$1.42m	$7.18m
$1500 a month	$111,620	$273,424	$860,490	$2.13m	$10.77m
$2000 a month	$148,827	$364,566	$1.15m	$2.84m	$14.36m
$5000 a month	$372,069	$911,415	$2.87m	$7.09m	$35.91m
$10,000 a month	$744,140	$1.82m	$5.74m	$14.2m	$71.81m
15% Annual Return	**5 yrs**	**10 yrs**	**20 yrs**	**30 yrs**	**50 yrs**
$50 a month	$4,417	$13,200	$66,404	$281,639	$4.68m
$100 a month	$8,834	$26,401	$132,807	$563,277	$9.35m
$200 a month	$17,668	$52,804	$265,615	$1.13m	$18.7m
$500 a month	$44,171	$132,009	$664,037	$2.82m	$46.75m
$1000 a month	$88,342	$264,018	$1.33m	$5.63m	$93.5m
$1500 a month	$132,513	$396,027	$1.99m	$8.5m	$140.25m
$2000 a month	$176,684	$528,036	$2.66m	$11.27m	$187m
$5000 a month	$441,710	$1.32m	$6.64m	$28.16m	$467.5m
$10,000 a month	$883,420	$2.64m	$13.28m	$56.33m	$935.01m
25% Annual Return	**5 yrs**	**10 yrs**	**20 yrs**	**30 yrs**	**50 yrs**
$50 a month	$5,618	$22,612	$232,732	$2.19m	$190.15m
$100 a month	$11,236	$45,223	$465,463	$4.38m	$380.297m
$200 a month	$22,473	$90,446	$930,928	$8.76m	$760.59m
$500 a month	$56,183	$226,115	$2.33m	$21.9m	$1.9bil
$1000 a month	$112,367	$452,230	$4.65m	$43.79m	$3.8bil
$1500 a month	$168,549	$678,345	$6.98m	$65.7m	$5.7bil
$2000 a month	$224,733	$904,460	$9.31m	$87.59m	$7.61bil
$5000 a month	$561,832	$2.26m	$23.27m	$218.96m	$19.01bil
$10,000 a month	$1.12m	$4.52m	$46.55m	$437.9m	$38.03bil

Strategies to Multiply Your Money

Are you getting excited about how your money can multiply into millions? Now, the next question would be, 'how do I achieve the kind of returns you are talking about?' 'How do I get 15% or even 12.08% return with little or no risk?' What I am going share with you in the next few chapters are going to shock you.

Some of it will totally go against what you have learnt about investing and finance from college, your bankers and your financial advisor. I should know! (I earned an honors degree with a major in finance & my wife was a financial advisor).

You will learn never before revealed strategies in any book about how to achieve millionaire returns without paying high commissions to your bank or brokers. After learning this stuff, you will wonder why you were never taught this before and will probably kick yourself for leaving your money in fixed deposits like most people do, praying for a measly 2%-4% return.

In fact, when I first revealed some of these strategies I used during my seminars, I got hate email from some investment advisors. Why? Because they were afraid that once the general public gets to know about these investment techniques they will not need them anymore. In fact, I thought long and hard about whether I should include this in my book. However, I believe that all of us should be entitled to know the truth about what we can do with our money. So here it goes...

There are three major growth strategies that I personally employ that I want to share with you...

1. Buying the Market

Remember that I mentioned earlier that the US stock market has averaged a return of 12.08% every year for the last fifty years and the Singapore stock market has averaged an 8.57% annual return for the last 18 years.

What does this mean? It means if you bought the entire stock market, you would get those returns on average every year!

Of course this does not apply to individual stocks. Individual stocks could triple in value or go bust! But how is it possible to buy the all the stocks in the whole market? We will cover this in chapter 16. When you use this strategy, you will be achieving returns of between 8.57%-12.08% a year.

2. Winning in Mutual Funds

If you want to get annual returns of over 12.08%, then the next strategy you must master is to pick the right mutual funds (called unit trusts in Asia). The trouble is that it is generally very difficult for most people to pick the right mutual funds and difficult to make money. Why? Statistics show that only 10% of mutual funds outperform the stock market every year and it is a different 10% every year. Less than 3% of funds are able to consistently outperform the general stock market over the long-term. One reason is because of high sales charges imposed by banks and financial institutions. In Asia, there is generally not enough research data available to the individual investor to pick the right funds, resulting in long-term loss.

However, in chapter 17, you will learn specifically how to pick winning funds that will give you returns of between 13%-20% a year over the long term, at very low cost!

* *Mutual funds (unit trusts) are an investment vehicle that pools money from many individual investors. A professional fund manager invests and manages these funds into stocks or other types of investments. These funds offer investors the advantages of diversification and professional management.*

3. Pick Winning Stocks

The final growth strategy will offer you the highest possible returns targeted between 15%-25% per year. This is the strategy of picking a winning portfolio of ten to twelve individual stocks. While this is highly risky to most people who don't understand the business behind the stock, you are going to learn specifically how master investors like Warren Buffett employ this strategy in a low risk and very high return manner. I have personally achieved an average of 22% return a year from this strategy.

As you can see from the chart, as you go down the scale, your potential returns get higher and higher. However, does this mean that your risks increase? Well, like I said, risk depends on your level of financial competence. If you are like most investors who have low financial intelligence and blindly buy based on the advice of others then it is more risky. However as you increase your financial intelligence, the risk does not increase. So before I will allow you to go into higher return vehicles, I will ensure you are well prepared to go in so you will have minimal risk (I personally prefer no risk).

Low Financial Intelligence
Low Returns

Growth Strategy 1:
Buying the Market (8.57%-12.08%)

Growth Strategy 2:
Winning in Mutual Funds (13%-20%)

Growth Strategy 3:
Picking Winning Stocks (15%-25%)

High Financial Intelligence
High Returns

How To Allocate Your Money for Maximum Returns & Minimum Risk

So with all these money multiplication strategies, where should you put your hard earned savings? How should you allocate your funds to generate maximum gains yet minimize your risks?

I am sure you have heard of the term 'don't put all your eggs in one basket'. Even though you are going to learn how to achieve minimum risk & maximum returns in each basket, it is still wise to allocate your funds into different instruments with different targeted holding periods. In times of emergency when you need the cash, you can be sure that all your funds are not stuck in one place.

Now, here is an important disclaimer. In most financial textbooks, they advise diversifying your funds into many different investment vehicles like bonds, stocks, mutual funds, money markets instruments as well as spreading your money across numerous different sectors and different countries to diversify your risks. To an average investor who has low financial competence and needs the wide diversification to lower risk, this makes sense. However, while this kind of broad diversification guarantees low risk, it also guarantees low returns of 5%–8%.

I personally do not follow this strategy. Warren Buffett advises that 'broad diversification is used by people to protect themselves against their own ignorance'. If you know what you are doing (high financial intelligence), you should concentrate your portfolio into equities (stocks & mutual funds) as they achieve the highest return. And you can achieve low risk not by simply spreading your money around, but by your competence of knowing which funds and stocks to pick.

So, the strategy I am going to share with you would be deemed highly risky by most financial advisors and bankers. Again, it's because most investors lack the competence to do otherwise. However, with the strategies and knowledge you are gaining in this book, you will prove to yourself that it is actually low risk, high return strategy. Are you ready? Let's discover...

Your Four Money Baskets

Knowing how to allocate the money you save is the single most important decision that will lead to your financial goals. You should take your monthly savings of 15%-20% and allocate it to four money baskets. These are the security basket, growth basket, high growth basket and the luxury basket. Let me explain each of these.

1. Security Basket (Target Return of 1.5%-4.5% pa)

This first basket is, as the name implies, for your security. The funds in this basket grow just enough to keep pace with inflation. However, they are there in case of emergencies. If you suddenly lose your job, experience a salary cut or suffer a setback in your business, you know that you will have access to these funds anytime to see you through.

This basket should include cash, fixed deposits/certificates of deposits, personal housing, insurance & capital guaranteed funds.

2. Growth Basket 1 (Target Return of 8.57%-20% pa)

This is the basket where you build your net worth & positive cash flow assets that will lead you to financial freedom.

This basket is where you put your money into index funds, Exchange Traded Funds (ETFs) and mutual funds. You should also divide your funds between the US market and Asian markets. Although mentioned earlier that Asian equities have disadvantages, we cannot deny the huge growth opportunities that Asia offers (especially India and China). Don't worry, you will learn all this jargon and exactly how to choose the right funds in the next two chapters.

Note: Although we aim to achieve an average annual return of 8.57%-25% in our stock and fund investments, it is an AVERAGE RETURN. In other words, there will be some years when the stock market will increase in value by 50%, in other years it may drop by 30%!

It is during these down periods that people usually panic and sell because they need the money! However, you must have the staying power to hold and buy even more and make the rewards when the market recovers again. As a result, the money you put in the two growth baskets should be money you are **confident you do not need to touch in at least five to ten years.** You are using the power of compounding and time to allow these to grow into millions of dollars.

3. Growth Basket 2 (15%-25%)

This is the basket where you ACCELERATE the building of your net worth & positive cash flow assets that will lead you to financial freedom. Once again, you should not have to touch this money for five to ten years to let the power of compounding work its magic.

This basket is where you put your money into a winning portfolio of ten to twelve company stocks. And again, you should hold some Asian stocks as well as US stocks.

4. Luxury Basket (0%)

Your luxury basket is where you save up to indulge in your dream assets. This is money that you can afford to spend on things that are fun like:

Upgrading to a dream house, luxury cars, jewelry, boats and other luxuries. Again remember from the chapter on 'How the rich manage their cash flow' that the money to be used for luxuries should not come from your primary source of income, but from the passive income generated from your positive cash flow assets.

Allocating Your Funds to the Four Baskets

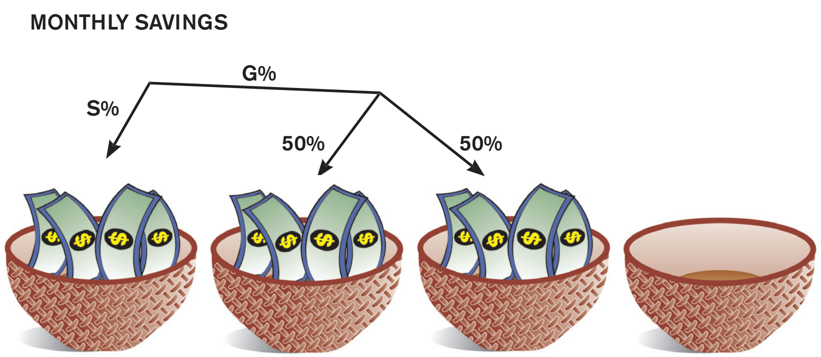
So, how should you allocate your monthly savings of 15%-20% into the four baskets? Just a note for Singapore citizens and those who have compulsory savings plans from their government or company: Besides the mandatory savings scheme like CPF (33%) or 401K plans, you should also allocate at least another 10% of your net income to turbo-charge your growth!

STEP 1:

Before even investing in anything, the first step is to fill up your security basket with at least 3-6 months of cash and short-term fixed deposits. This does not include your CPF (Singapore) or 401k plan (US). If you remember from chapter six (The four levels of wealth), this achieves for you 'financial stability'.

STEP 2:

After completing step one, your subsequent savings should be allocated to your different baskets, the proportion of which depends on your age & financial knowledge.



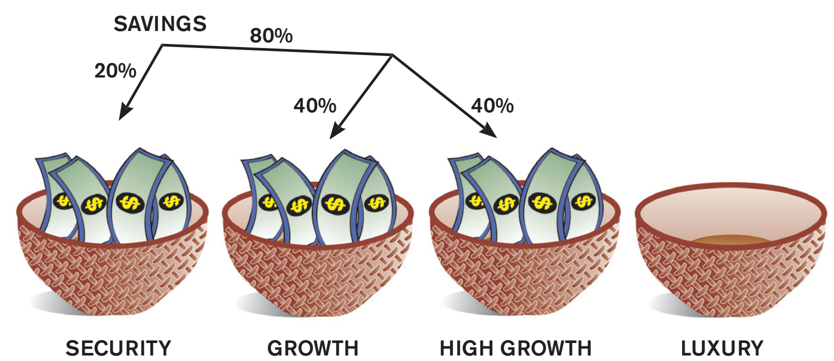
SECURITY	GROWTH	HIGH GROWTH	LUXURY
Cash, insurance Fixed deposits Personal housing Capital guaranteed funds	Index funds Exchange Traded Funds Mutual Funds	Portfolio of 10-12 US and Asian stocks	Luxury cars Upgraded home New interiors Jewelry

The first portion of your savings (S%) should go into your 'Security Basket', primarily to pay your insurance premiums and to further reduce the principal loan on your home. This S% **can include** the money used from your CPF (for Singapore citizens).

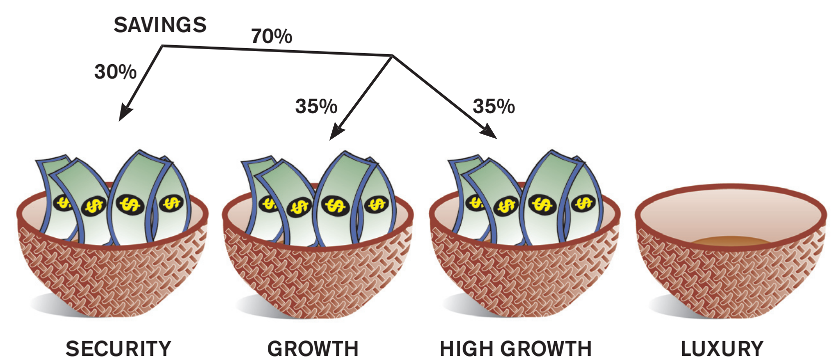
The next portion (G%) should be divided into your growth and high growth baskets. I personally divide it equally, but it really depends on you. The question is whether you have more confidence in your mutual fund selection or individual stock selection. You could put 80% into high growth or vice versa.

You should NOT allocate any amount of your monthly savings into your luxury basket if you want your savings to have high growth. The luxury basket should only be filled by the returns generated from your growth and high growth baskets.

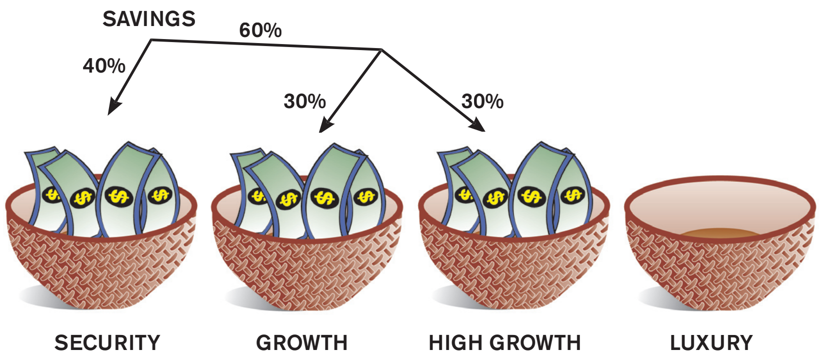
If You Are Below 30 years old



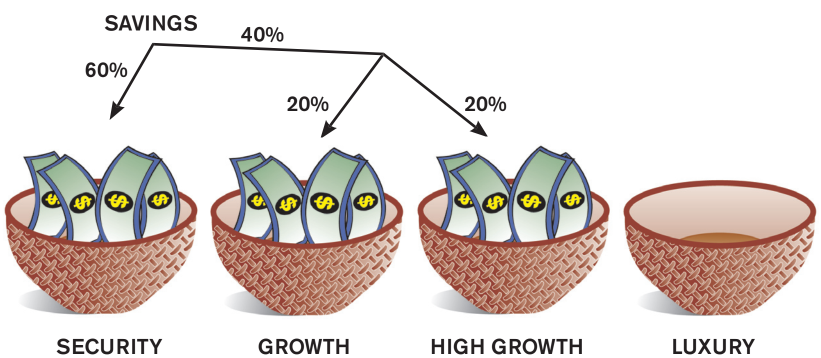
If You Are 30-40 years old



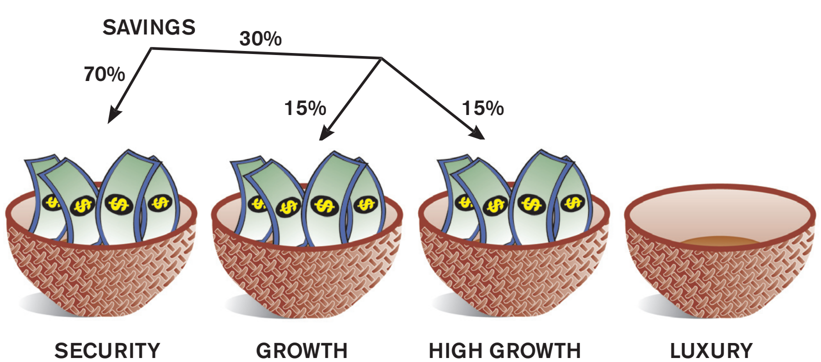
If You Are 40-45 years old



If You Are 45-55 years old



If You Are above 55 years old



I Am in My Fifties, How Can I Ever Achieve Financial Freedom?

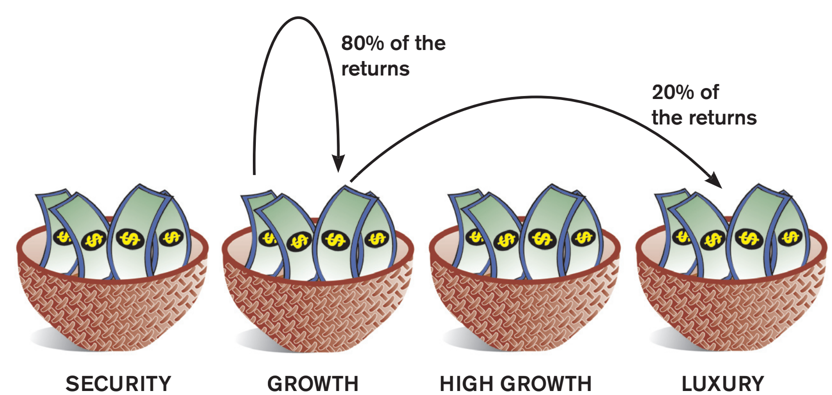
Now, at this point of time you may be thinking, 'If I am in my fifties and allocate such a small proportion of my savings into growth, then how can I generate enough returns to be financially free?'.

The answer is that you should focus primarily on creating positive cash flow assets (like a home based internet business, intellectual property streams) that do not require much money. Instead use your ideas as the main source of passive income and returns!

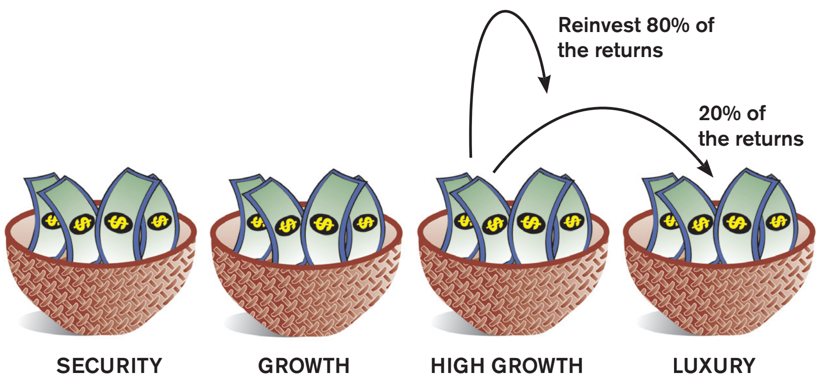
Reinvesting Your Returns for Compound Growth

The returns generated from your growth baskets should be re-invested in order to benefit from the effects of compounding. At the same time, a proportion can be allocated to your luxury basket so you can eventually enjoy your money while seeing your money multiply. A rule I use is to reinvest 80% of the returns back into the same basket and take out 20% of the returns (not the principal amount) into my luxury basket.

Reinvesting Returns from Your Growth Basket



Reinvesting Returns from Your High Growth Basket



Now that you have learnt the method of how you can allocate your funds for maximum protection and maximum returns, let's get started learning the first growth strategy... buying the market!

chapter 16

Getting a 12.08% Return Risk Free?

Let me start off this chapter by asking you this question, 'is it possible to achieve a 12.08% annual return risk free?' Recall that at 12.08% per year, your money is doubling every 5.96 years and $1,000 invested a month would grow close to $1 million in just twenty years.

Most people would say, 'No way! The highest risk free rate is 4%!'. Well, in this chapter you are going to learn that anyone, including a complete beginner, can achieve a 12.08% return risk free. The only skill you need is patience.

Measuring Stock Market Performance

Now, remember in the last chapter that we said that the US stock market has averaged an annual return of 12.08% per year for the last twenty years? Well, how is the performance of the stock market measured? Are we saying that every single stock in the stock market went up by 12.08% per year? No!

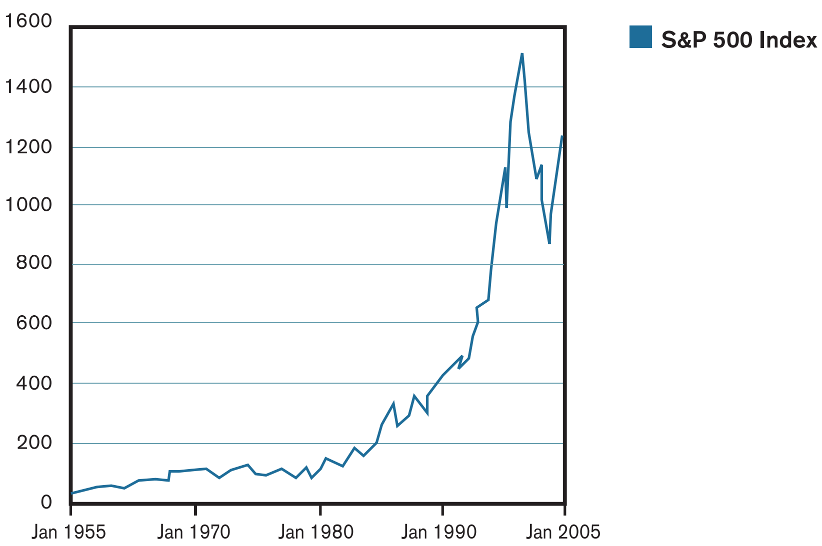
Stock markets are measured by an index. An index is a portfolio of stocks that is designed to represent the whole market. An index acts as a benchmark that professionals aim to beat. The US stock market is represented by many indexes, the most popular of which is the Standard & Poors 500 Index (S&P 500). This index consists of 500 of the largest companies in the US stock market and represents over 80% of the total stock market value. The index is the average price of all these 500 stocks and it represents the overall performance of the whole US stock market.

So, when we say that the US stock market increased an average of 12.08% a year, we are referring to the average price of the 500 largest companies!

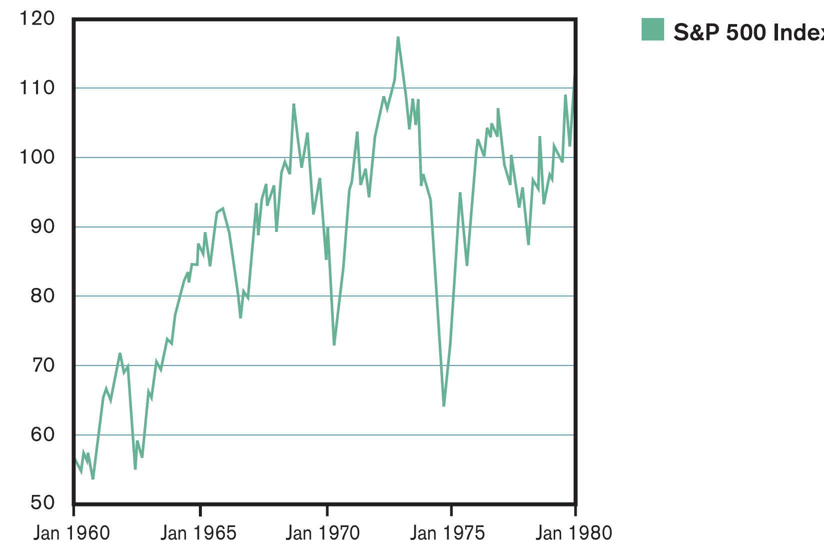
Understanding How the Stock Market Behaves

Let's observe the performance of the overall stock market for the last fifty years as measured by the S&P 500 index. As you can see the stock market randomly moves up and down in the short term, but over time, it keeps moving up.

Why will the stock market continue to move up in the long term? This is because of inflation (prices will always increase over time and so will the price of stocks) and population growth. As population grows around the world, companies will have more people to sell to and profits and stock prices will naturally keep going up.



Now, some people get a bit worried as they notice that from 1999–2001, the market dropped by almost 40%. (this was the burst of the dot com bubble) 'Is the trend changing?' they think. 'Will it ever recover?'. In fact, the stock market has dropped by more than 50% many times in the past but always managed to recover. In fact, look at 1969 and 1974, at that point in time, everyone thought that the world was over as the market crashed by 34% and 50% respectively. As you can see, those that panicked and sold would have kicked themselves if they could see what would eventually happen. Those who had the faith to hold on would eventually be rewarded.



Now, let's further examine the actual year-to-year gains and losses over the last fifty years.

Table 1: 50 Years of Gains & Losses from the US Stock Market
(S&P 500 Capital gains, excluding dividends)

1956-1957	2.05%	**1966-1967**	-6.75%	**1976-1977**	1.16%	**1986-1987**	29.4%	**1996-1997**	23.61%
1957-1958	-6.57%	**1967-1968**	6.5%	**1977-1978**	-12.5%	**1987-1988**	-6.21%	**1997-1998**	24.69%
1958-1959	32.97%	**1968-1969**	11.68%	**1978-1979**	11.97%	**1988-1989**	15.7%	**1998-1999**	30.54%
1959-1960	0.29%	**1969-1970**	-17.5%	**1979-1980**	14.24%	**1989-1990**	10.63%	**1999-2000**	8.97%
1960-1961	11.1%	**1970-1971**	12.77%	**1980-1981**	13.48%	**1990-1991**	4.51%	**2000-2001**	-2.04%
1961-1962	11.43%	**1971-1972**	8.41%	**1981-1982**	-7.06%	**1991-1992**	18.86%	**2001-2002**	-17.3%
1962-1963	-3.83%	**1972-1973**	11.63%	**1982-1983**	20.68%	**1992-1993**	7.34%	**2002-2003**	-24.3%
1963-1964	16.37%	**1973-1974**	-16.8%	**1983-1984**	12.46%	**1993-1994**	9.76%	**2003-2004**	32.19%
1964-1965	13.66%	**1974-1975**	-20.3%	**1984-1985**	9.93%	**1994-1995**	-2.32%	**2004-2005**	4.43%
1965-1966	6.08%	**1975-1976**	31.02%	**1985-1986**	17.9%	**1995-1996**	35.2%	**2005-2006**	8.36%

Source: Calculated from Yahoo! Finance S&P 500 closing prices

As you can see, in the last 50 years, the market was up for 37 years and down for 13 years. What does this mean? It means if you have invested your money into the whole stock market index (not individual stocks) for a one-year period, there would be a 26% chance of loss and a 74% chance of gain! Not bad! But let's explore further. The next chart shows the stock market gains and losses over a 5-year period.

Table 2: 50 Years of Gains & Losses from the US Stock Market
5-Year Periods (S&P 500 Capital gains, excluding dividends)

1956-1961	40.99%	**1981-1986**	63.47%
1961-1966	50.33%	**1986-1991**	62.4%
1966-1971	3.22%	**1991-1996**	85.08%
1971-1976	5.19%	**1996-2001**	148%
1976-1981	28.45%	**2001-2006**	-6.29%

Source: Calculated from Yahoo! Finance S&P 500 closing prices

As you can see, over the last 50 years, there were ten '5-year periods'. Out of these, 9 periods were positive and 1 period was negative. What does this mean? If you invested your money into the entire stock market index for a minimum of 5 years, you would have had a 90% chance of gain and only a 10% chance of loss. Wow! This is getting better and better.

Now, what would happen if you invested your money into the whole stock market index for a period of at least 10 years? You can see from the chart below that you would have a 100% chance of gain and a zero chance of loss!

Table 3: 50 Years of Gains & Losses from the US Stock Market
10-Year Periods (S&P 500 Capital gains, excluding dividends)

1956-1966	111.96%	**1986-1996**	200.32%
1966-1976	8.59%	**1996-2006**	101.26%
1976-1986	109.97%		

Source: Calculated from Yahoo! Finance S&P 500 closing prices

What Can We Learn from This?

So, to summarize, what have we learnt? We have learnt that...

1. The stock market is highly volatile in the short term (it can get quite scary), but it keeps going up in the long term.
2. The longer you invest your money, the lower the risk!
   a. Hold for 1-year, your risk of loss is 26%
   b. Hold for at least 5-years, your risk of loss is 10%
   c. Hold for at least 10-years, it is risk free!
3. Based on historical performance, if we invest in the stock market index for the long term, we will get a 12.08% return risk free!

Is it Possible to Achieve an Average Annual Return of Over 45.5% Risk Free?

Some people would think that I would be crazy to even suggest this. The answer is an amazing 'yes', provided you have enough patience, financial knowledge and funds to put aside. This is possible through the use of investing in derivatives like CFDs (Contract for Differences) that are bought on stock indices. Learning this is way beyond the scope of this book. If you are interested to push your financial competence to the next level, I highly suggest you invest the time to attend my live wealth training boot camp known as 'Wealth Academy'. It is only through this live training that you will be able to truly master the entire range of attitudes and skills that are available.

How Do I Buy Stocks of the 500 largest Companies in the US?

So, how do you invest your $1000 into the whole stock market index of 500 companies? The answer is to buy a mutual fund that is designed to track the S&P 500 index. This type of fund is known as an index fund.

Alternatively, you could buy an Exchange Traded Fund (ETF) that tracks the S&P 500 index. Basically, an ETF is a kind of investment security that is constructed like a mutual fund but trades like stock. It is better than a normal mutual fund as it has lower expense fees and can be bought or sold anytime of the day. So where and how do you buy these funds? I will cover the specifics in the next section.

Is the Same True for the Singapore & Malaysian Stock Market?

Now, the Singapore stock market is represented by a different index called the Straits Times Index (STI). The STI comprises of 55 of the largest listed companies on the Singapore stock exchange. The Kuala Lumpur Composite Index (KLCI) is a broad-based capitalization-weighted index of 100 stocks designed to measure the performance of the Kuala Lumpur Stock Exchange.

If you look at the tables below you can see that if you invested in the Singapore stock market index for a 1-year period, you would have a 38.8% chance of loss but if you stayed invested for at least

5-years, you would have a 25% chance of loss and a 75% chance of gain! Similarly, of you stayed invested for at least 8-10 years, you would have no risk of loss.

Table 4: 18 Years of Gains & Losses from the Singapore Stock Market
1-Year Periods (STI capital gains, excluding dividends)

1988-1989	24.7%	**1993-1994**	44.4%	**1998-1999**	13.4%	**2003-2004**	43.1%
1989-1990	33.7%	**1994-1995**	-10.9%	**1999-2000**	56.2%	**2004-2005**	13.4%
1990-1991	-16.4%	**1995-1996**	17.6%	**2000-2001**	-10.7%	**2005-2006**	15.0%
1991-1992	20.7%	**1996-1997**	-9.5%	**2001-2002**	-10.3%		
1992-1993	5.9%	**1997-1998**	-43.2%	**2002-2003**	-27.7%		

Source: Calculated from Yahoo! Finance STI closing prices

Table 5: 18 Years of Gains & Losses from the Singapore Stock Market
5-Year Periods (STI Capital gains, dividends excluded)

1988-1993	78%	**1998-2003**	2.5%
1993-1998	-22%	**2003-2006**	86.8%

Note: All are 5-year periods except 2003-2006 which is a three-year period
Source: Calculated from Yahoo! Finance STI closing prices

Table 6: 18 Years of Gains & Losses from the Singapore Stock Market
10-Year Periods (STI Capital gains, dividends excluded)
As there is only 18 years of historical data for the STI, I have only presented a 10-year period and an 8-year period.

1988-1998	38.6%
1998-2006	91.45%

Source: Calculated from Yahoo! Finance STI closing prices

Growth Strategy 1: Buying the Market

So, the first growth strategy you can employ is to buy an index fund or ETF that tracks the particular stock market index that you want to buy. In this way, you will achieve the same annual returns as the entire stock market! This is known as buying the market or pacing the market. Most investors lose money because they buy individual stocks that drop in value & never recover. When you buy the whole market, this will never happen. The market ALWAYS keeps going up in the long term!

Based on historical figures you would achieve an average annual return of 8.57% or 12.08% if you invested in index funds that track the Straits Times Index and S&P 500 respectively. And again, the good news is that this average return is actually increasing over the decades. The longer you stay invested, the lower the risk!

Question 1: When do I buy?

So when is the right time to buy the market? As early as possible! The earlier you start, the more time you will have for the power of compounding to work its magic.

However, you should AVOID buying when the economy is overheated and the market is overvalued. Remember that the stock market always goes through highs (booms) and lows (busts). After a boom, there is always a bust and after a bust, there is always a boom. If you buy at a boom and the market crashes by 50%, it will take you a much longer time to see your money grow back.

So when do you know? The stock market is overvalued and is at the top of a boom when Price-Earning Ratios (PEs) of stocks are generally very high, like in their 40s, 50s, 60s and above. Before the crash of 2000, PE ratios of some stocks were as high as 300! You can easily see the stock PE ratios in any newspaper or website that shows you stock quotes (prices).

Question 2: When Do I Sell?

So when do you sell your index funds? You hold them AS LONG AS POSSIBLE. The longer, the better. Remember, the longer you hold, the lower the risk and the greater the effect of compound interest!

However, if the stock market is overvalued or at the top of a boom, SELL EVERYTHING! When the market crashes (and it always will after the boom), BUY EVERYTHING BACK.

Question 3: How and What Kind of Index Funds Can I Buy?

Depending on the stock market index that you want to buy, you buy an index fund or ETF that tracks that particular index. If it is a US Index Fund that you are buying, you can purchase it through online brokers like Ameritrade.com, Optionxpress.com or etrade.com (E-Trade Financial). Like I mentioned earlier, you can just open an account online, send them the necessary documents and transfer funds into your account from your home country.

If you are buying an ETF (Exchange Traded Fund), it is a lot easier and cheaper. It is bought and sold exactly like a normal stock through your local broker or through a US online broker like interactivebrokers.com. Here are a few index ETFs that track the S&P 500 Index, the Straits Times Index, the Singapore MSCI Index (It's another Index) and the Dow Jones Index (The other major US stock market tracker).

1. StreetTRACKS Straits Times Index Fund (ETF)
The streetTRACKS STI is an ETF that is designed to track the performance of the Straits Times Index (STI). If you are a Singapore resident, you can buy and sell it through your local broker. (Find out more at www.streetTRACKS.net)

2. The S&P SPDR ETF
The S&P SPDR (Standard and Poor's Depository Receipts), also known as SPIDERS, is an exchange traded fund that tracks the S&P 500 Composite Stock Price Index. It is traded on the American Stock Exchange (AMEX) under the ticker SPY. (Find out more at www.amex.com)

3. iShares S&P 500 Index Fund (ETF)
This fund seeks investment results corresponding to the performance of US large Cap stocks as represented by the S&P 500 Index. Its ticker symbol is IVV.

4. iShares Dow Jones US Total Market Index Fund (ETF)
This fund seeks investment results that correspond generally to the price and yield performances before fees and expenses of the Dow Jones Index. Its ticker symbol is IYY.

5. EWS: iShares MSCI Singapore Free Index Fund (ETF)
This fund seeks to provide investment results that correspond generally to the price and yield of traded securities in the aggregate in the Singapore market as measured by the MSCI Singapore Index. Its ticker symbol is EWS.

For more information on ishares ETFs you can go to www.ishares.com.

So, there you have it! With this knowledge, you can confidently achieve an annual return of 8.57%–12.08% with little or no risk. It's time to increase your financial competence and hence your returns by beating the market indices using Mutual Funds...

chapter 17

Winning with Mutual Funds

In this next growth strategy, you are going to learn how to beat the market by selecting winning mutual funds that give you consistent annual returns of 13%–20%.

Once again, a mutual fund (called 'unit trust' in Asia) is an investment vehicle that pools money from many individual investors. A professional fund manager invests and manages these funds into stocks, bonds and other securities. People usually invest in mutual funds because it offers the advantage of broad diversification (it spreads your money over tens or hundreds of stocks to reduce risk) and professional management. However, do remember that as broad diversification reduces risks, it also reduces return.

The Bad News: Most Mutual Funds Lose Money... It is the Fund Managers that Make the Money

First, here is the bad news. If you speak to most people who have invested in unit trusts in Asia (especially Singapore) or in mutual funds, most would report losing money or just earning measly returns of 2%–4%. In fact, in the year 2004, it was reported in the Straits Times that 559,000 Singaporeans lost $680 million by investing their CPF in these funds. By going to the largest unit trust distributor Asia, you can easily calculate that only 6% of unit trusts beat the S&P 500 over a ten-year period. What are the chances of you placing your bet on this 6%? Chances are you would have had lower returns than the index, while still having to pay those hefty sales charges and annual management fees.

How about the US mutual fund market? On average, less than 10% of mutual funds beat the S&P 500 index each year! What's worse is that it is a different 10% each year. Less than 3% of mutual

funds are able to beat the S&P 500 Index over a five to ten year period. So again, what are the chances of you beating the market through betting on the right fund? Only 3%! You have better odds at the Black Jack table. The worse thing is that the fund manager gets paid an annual management fee whether or not the fund makes money.

Why Do Most People Lose Money in Mutual Funds?

Why is it so difficult for most people to make money in mutual funds? There are four main reasons.

1. High Sales Charges & Management Fees

Most people buy mutual funds through banks and financial institutions at retail prices where there is a sales charge (front load) and high annual management fees (expense ratios).

In Asia, most banks & financial institutions sell unit trusts with a sales charge of 5%-6% and with annual fees of 1.5%-2%. It means that before you even begin, you are down 6.5%-8% on your investment and will be down another 1.5% every year. Your fund must outperform the S&P 500 by 6.5%-8% just to make it worth your while! Again, less than 10% of funds worldwide can achieve this every year and less than 3% can achieve this over five years.

Lesson: Avoid buying funds at retail prices. Only buy mutual funds with zero sales charge (No Load Funds) and the lowest expense ratios possible, giving you maximum returns.

2. Buying the Hottest Performing Funds

Most people choose funds based on high short-term returns. These are the funds that are normally pushed and advertised by financial retailers. They feature impressive and enticing returns like 'This fund was up +65% in the last six months'.

The fact is that the best short-term performing funds tend to also be big losers in the subsequent years and long term. Why? Because these funds tend to be invested in hot stocks or hot sectors where

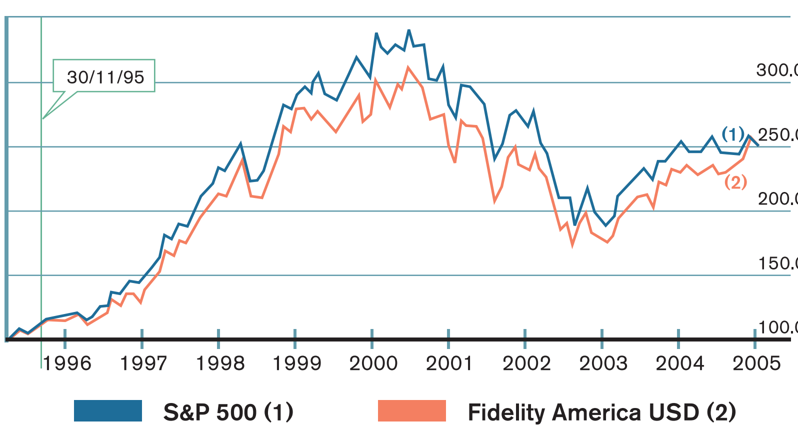
the stocks have been rising rapidly and fund managers buy, riding on the momentum. That is why they post very spectacular returns. However, strong buying activity tend to push these stocks to be overvalued and sure enough, the stocks will come crashing down in the next few years. Mutual funds that consistently beat the S&P 500 tend to be invested in non-hot sectors and do not post spectacular short-term returns.

Lesson: Do not buy the top 10% of spectacular short-term performing funds. Buy the 3% of funds that consistently outperform the S&P 500 over the long term.

3. Limited Selection of Unit Trusts Locally

If you are in Asia, then you are normally exposed to only a limited number of unit trusts. A check with fundsupermart.com (the largest Asian unit trust distributor) shows that there are just about 300 funds available here compared to over 8,000 funds in the US market.

When I made a search on the Top Performing Fund sold locally (year 2005), I was presented with 'Fidelity America USD' with a 10-year annualized return of 11.27%. (Recall that the S&P 500 returned 12.08% a year). So, even the top-performing fund couldn't beat the S&P 500 after deducting expenses & fees!!



4. Lack of Research Knowledge, Data & Tools

The single most important reason why investors lose money in mutual funds is because they don't have the knowledge or necessary information to search for the top 3% of consistent performing funds at the lowest costs. Investors tend to buy on the advice of their bank managers, facts from the fund fact sheet or prospectus which does not provide enough information to select the right fund.

Lesson: You must learn to use research tools to find the top 3% of most consistent performing mutual funds at the lowest costs! Let's learn this right now…

The Secret to Winning in Mutual Funds

So with all the bad news I have just presented you, how can anybody make money in mutual funds, let alone a 13%-20% annual return? The answer is in knowing how to find mutual funds that have been consistently beating the S&P 500 for the last ten years and at the same time, have the lowest management fees and the lowest volatility! There must also be a high probability that the fund will continue to keep up this consistent performance. These funds I am talking about probably represent the top 1% of funds in a whole universe of 8000!

So how do we find these funds? You are going to learn how to do this right now so get ready.

First, the funds we are looking for must satisfy four major screens. Within each screen, there are two to four criteria that the funds must meet. Here they are:

Screen 1: Long Term Performance

1. The fund must have beaten the S&P 500 over the last 1-year, 3-year, 5-year and 10-year periods.
   (This is to ensure that the fund has a track record of long term, consistent performance.)

2. The fund must have beaten its peers (funds in the same category) in the last 3-months, 1-year and 3-years.
   (This is to ensure that the good performance of the fund is because of the strong fund management and not just because the fund sector is hot.)

Screen 2: Strong, Sustainable Management

1. The fund should have continuous management by the same individual or team greater than five years.
   (This is to ensure that the fund manager is highly likely to stay around and continue to manage the fund.)
2. The managed fund size should be between $50m to $3 billion.
   (Too large a fund may have difficulty maintaining high growth rates and too small a fund may not be financially stable.)

Screen 3: Low Expenses

1. Fund should have no front loads (sales charge).
2. Fund should have the lowest expense ratio in its category.
   (The less you pay for sales charge and management fees, the higher your returns.)

Screen 4: Low Risk Relative to Return

We want to ensure that the fund we buy has low volatility and so there is low risk relative to the high returns we want. There are three ways we measure this...

1. The fund's Morningstar risk rating should be 3 or below.
   (1 being lowest risk and 5 being highest risk.)
   (This measures the number of declining months the fund has experienced relative to US Treasury-bills.)
   * *Morningstar is the leading mutual fund rating agency in the US.*
2. Standard deviation of fund should be less than funds in the same category (This measures the volatility of the fund.)
3. The Sharpe ratio should be > 1. The higher the ratio, the lower the risk (The Sharpe Ratio measures how much the fund rewards shareholders relative to the risk.)

Steps to Finding the Top 10 Mutual Funds in the World

Now you may be saying, 'This theory sounds really great, but how do I find these funds that match all the screens and criteria? Do I need a PhD in finance and how many months will it take me?'.

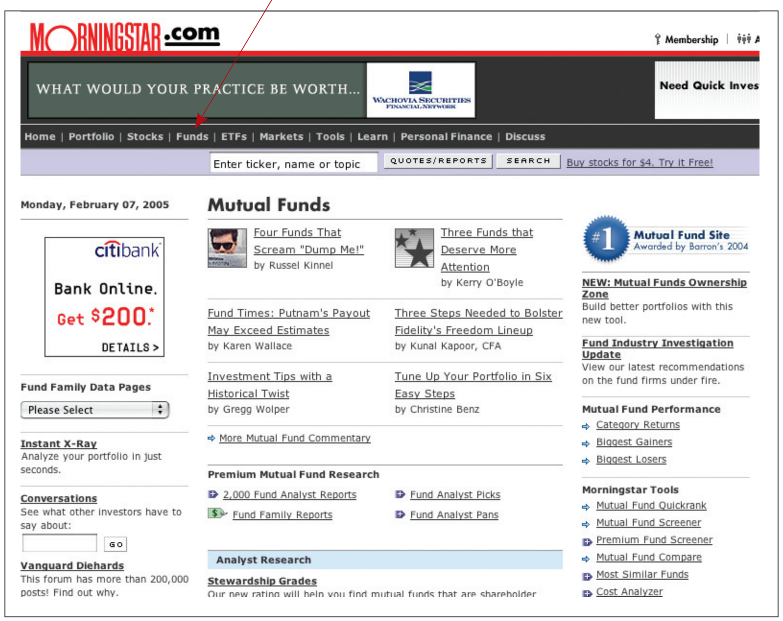
Relax. I am going to show you how to use the most powerful research tools available to find these funds in less than ten minutes! And the best part is that it is free. Are you ready?

Step 1: Go to Morningstar.com and Use the Mutual Fund Screener

The first step is to visit www.morningstar.com. Morningstar is one of the leading mutual fund research and rating services in the world. On the top menu bar, click on 'funds'. See diagram 1.

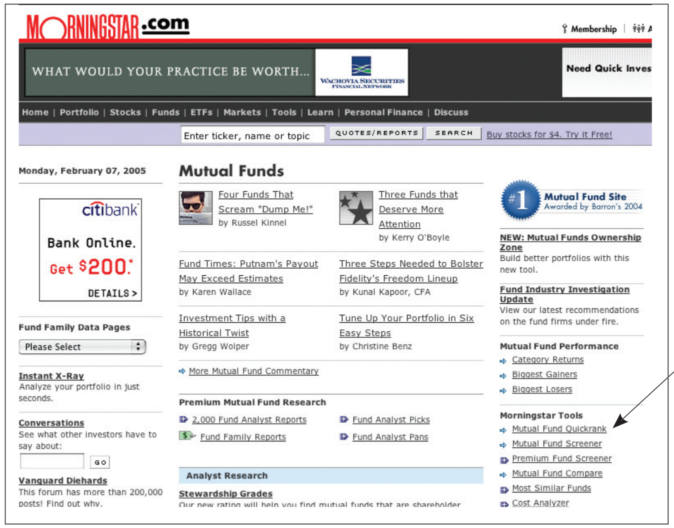
Diagram 1

Click Here



This will bring you to the mutual funds page. On the right hand menu bar, under the section called 'Morningstar Tools', click on 'Mutual Fund Screener'. See diagram 2.

Diagram 2



Click Here

This will bring you to the mutual fund screener page on diagram 3. Here, you can indicate the criteria of the funds you are looking for and the screening tools will search all the funds available and present to you the funds that meet all the pre-set criteria.

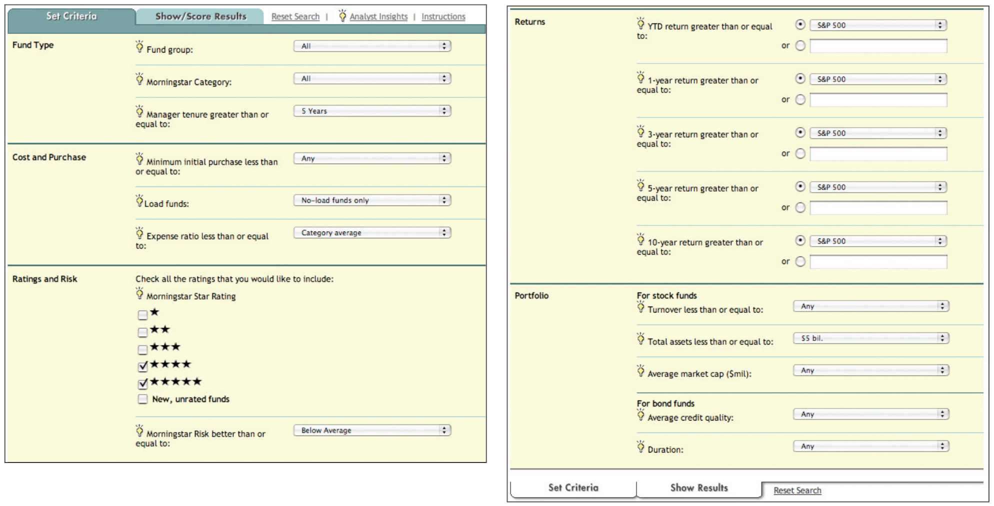
Step 2: Enter All the Criteria into the Mutual Fund Screener

As can be seen in diagram 3 below, you can set all the following screening criteria based on the four major screens discussed earlier.

Under fund type, indicate that the manager tenure be greater than 5 years. Under cost and purchase, enter 'no-load funds only' and 'expense ratio less than category average'. Under ratings and risk, indicate only 4 and 5 star ratings (this is different from risk ratings). Under Morningstar risk, better than equal to 'below average.'

Under returns, set the returns of the fund to be greater or equal to S&P 500 in all periods: YTD (year to date), 1-year return, 3-year return, 5-year return and 10-year return.

Diagram 3



Finally, under Portfolio, enter total assets less than or equal to $5 billion (this is the closest we have as there is no criteria for $3 billion).

Once you are all done, click 'show results'. You will then be presented with ten to thirty funds that meet all the criteria on diagram 4.

Diagram 4

Check boxes to: Test in a Portfolio | Add to my Portfolio — Score These Results

Fund Name	Morningstar Category	Morningstar Rating	YTD Return (%)	Expense Ratio (%)	Total Assets ($ mil)
Allianz CCM Capital Appre	Large Growth	★★★★	4.36	0.71	1,129
Allianz CCM Emerging Comp	Small Growth	★★★★★	3.58	1.51	653
Allianz CCM Mid Cap Admin	Mid-Cap Growth	★★★★	7.35	0.96	1,158
Allianz CCM Mid Cap Instl	Mid-Cap Growth	★★★★	7.55	0.71	1,158
Allianz NFJ Small Cap Val	Small Value	★★★★★	9.03	0.86	3,857
Analytic Defensive Equity	Large Blend	★★★★★	14.17	0.99	400
Columbia Small Cap Core Z	Small Blend	★★★★	1.44	0.90	1,530
Delaware Pooled Internati	Foreign Large Value	★★★★	6.78	0.88	1,927
Delaware Small Cap Value	Small Blend	★★★★	5.13	1.24	647
FAM Value	Mid-Cap Blend	★★★★	2.55	1.20	1,076
First Eagle Fund of Ameri	Mid-Cap Blend	★★★★	1.42	1.46	771
FMI Common Stock	Mid-Cap Blend	★★★★	4.11	1.23	441
Gabelli Asset AAA	Mid-Cap Blend	★★★★	1.04	1.38	2,299
Harris Insight Equity N	Large Value	★★★★	8.24	1.19	283
ICM Small Company	Small Blend	★★★★	1.34	0.88	1,512

At the time I am doing this demonstration, there are 33 funds that meet all our criteria. So should we buy all 33? Of course not. In fact, we probably want to just invest in the very top 5. So we need to rank all the funds from best to worst according to our criteria.

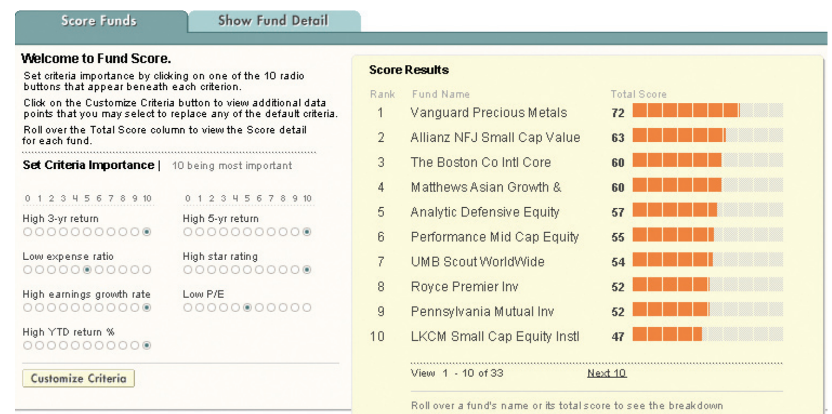
Step 3: Rank All the Funds from Best to Worst

Currently, all 33 funds presented are not ranked in any way. To rank them, check all the boxes for every fund and click 'Score These Results' at the top right hand corner of the page. This should bring you to a page as shown in diagram 5.

On this page (diagram 5), set the criteria importance for each of the ranking criteria. I normally put '10-most important' for high 3-year return, high earnings growth rate, high YTD return, high 5-year return and high star rating. As for 'Low expense ratio' and 'low PE', I put a '5-average importance'.

The funds will then be automatically ranked from the highest to the lowest as shown below.

Diagram 5



Now, do we take the top five funds as the ones to invest in? Not yet. We need to find out a lot more about these funds. We still need to check if they meet our risk criteria (i.e. Screen #4).

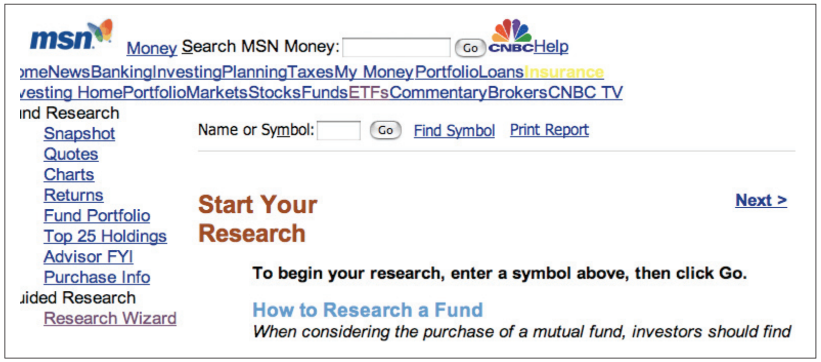
Step 4: Run the Funds through Moneycentral's Mutual Fund Research Wizard. If it fails any of our four screens, remove it.

The next step is to run all the funds through a mutual fund 'Research Wizard' (on www.moneycentral.com) that will tell us the details about each fund to confirm if it indeed meets our four major screens. The moment it fails a criteria, we remove it from our buy list.

After running all the funds (starting from the top of the list), we then pick the top five funds which we feel have the strongest long-term performance, lowest risk, strongest manager and lowest cost.

Let me demonstrate with the 4th funds on the list, the 'Matthews Asia Growth & Income'. First go to www.moneycentral.com. At the homepage, check the left menu bar and under the section on funds, click 'Research Wizard'. This will bring you to the Research Wizard page on diagram 6.

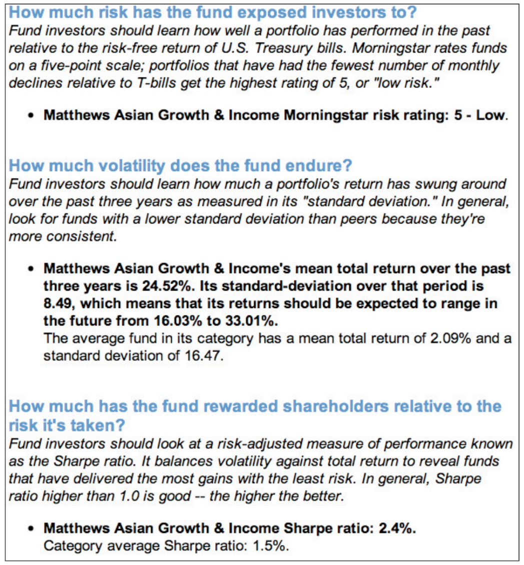
Diagram 6: Screen capture from www.moneycentral.com



On this page (diagram 6), key in the symbol of the fund you want to research on. To find the symbol, click on the 'Find Symbol'. In this case, the symbol for 'Matthews Asian Growth & Income' is MACSX. Once you click 'go', the Research Wizard will give you all the details about the fund's goal, category, size, performance, expenses and risk. Again, the moment it fails any of our four screens or any of our criteria, remove it from your 'buy list'.

In this case, MACSX fund passes all our criteria with flying colours. For example, it can be seen through the Research Wizard that MACSX meets all the criteria for 'Screen 4: Low risk relative to return'. The fund has a low Morningstar risk rating, low standard deviation and high Sharpe Ratio (see diagram 7). So, you can consider putting MACSX on your potential buy list.

Diagram 7: Screen capture from www.moneycentral.com



How much risk has the fund exposed investors to?
Fund investors should learn how well a portfolio has performed in the past relative to the risk-free return of U.S. Treasury bills. Morningstar rates funds on a five-point scale; portfolios that have had the fewest number of monthly declines relative to T-bills get the highest rating of 5, or "low risk."

- **Matthews Asian Growth & Income Morningstar risk rating: 5 - Low.**

How much volatility does the fund endure?
Fund investors should learn how much a portfolio's return has swung around over the past three years as measured in its "standard deviation." In general, look for funds with a lower standard deviation than peers because they're more consistent.

- **Matthews Asian Growth & Income's mean total return over the past three years is 24.52%. Its standard-deviation over that period is 8.49, which means that its returns should be expected to range in the future from 16.03% to 33.01%.**
  The average fund in its category has a mean total return of 2.09% and a standard deviation of 16.47.

How much has the fund rewarded shareholders relative to the risk it's taken?
Fund investors should look at a risk-adjusted measure of performance known as the Sharpe ratio. It balances volatility against total return to reveal funds that have delivered the most gains with the least risk. In general, Sharpe ratio higher than 1.0 is good -- the higher the better.

- **Matthews Asian Growth & Income Sharpe ratio: 2.4%.**
  Category average Sharpe ratio: 1.5%.

Step 5: Check if the Fund is Overvalued and the Purchase Information.

Next, you have to ensure that although the fund has performed very well in the past, the stocks it holds are not overvalued or there will be no more room for strong returns. One way to check is to look at the fund's PE Ratio (Price to Earnings Ratio). Check that the PE ratio is less than 20 (above 20 usually indicates overvalued) and less than the category PE.

You can check the PE ratio by clicking on 'Snapshot' on the top left-hand corner of the Research Wizard page. Then click on 'View Rating Details'. (see diagram 8). You can then check the PE ratio on the next page (diagram 9).

Diagram 8: Screen capture from www.moneycentral.com

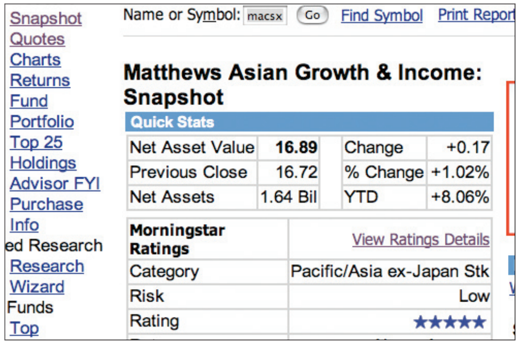


Diagram 9: Screen capture from www.moneycentral.com

Matthews Asian Growth & Income: Fund Portfolio

Portfolio Stats

Size	Fund	Category
Median Market Cap	$5.18 Bil	$6.48 Bil

Market Capitalization	% of Portfolio
Giant	30.41
Large	43.23
Medium	25.09
Small	1.26
Micro	0.02

Investment Valuation	Stock Portfolio	Category
Price/Book	3.06	3.65
Price/Earnings	17.39	17.63

Finally, you have to check out the purchase information like the initial investment amount and the brokers that are selling this fund. You can check by clicking on 'Purchase Info' on the left-hand menu. You should come to the Purchase Info page (diagram 10).

Diagram 10: Screen capture from www.moneyecentral.com

Purchase Information	
Minimum Investment	
Initial	2,500.00
Additional	250.00
Initial IRA	500.00
Additional IRA	50.00
Initial AIP	2,500.00
Additional AIP	100.00

So, there it is, the five steps to find the best mutual funds around! However, the ultimate growth strategy is knowing how to pick the best individual stocks in the world that will give you returns of 15%-25%, just like the best investors in the world. So, strap yourself in because in the next chapter, you will learn...

chapter 18

How to Pick Stocks Like Warren Buffett

Welcome to chapter 18! In the last few chapters, you would have learnt some of the most powerful investing strategies used by professionals and millionaire investors. You have learnt how to achieve a 12.08% risk-free return by buying the whole stock market. You have also learnt the secrets of how to select winning mutual funds that consistently beat the market over the long-term. Now, get ready to push your financial intelligence to a whole new level! In this chapter, you will learn the ultimate growth strategy, how to pick the best individual stocks in the world; stocks that will give you returns of 15% to 25%! These are the returns generated by some of the most successful investors in the world.

While the first two strategies of 'Buying the Market' and investing in Mutual Funds diversify your risk, they also minimize the returns you can make. For example, imagine if you invested in a mutual fund that was made up of a portfolio of 50 stocks. In order for your investment to double, all 50 stocks would have to double in price! However, if you invested in an individual stock, then the moment the stock price doubles, your investment would double! So, is it easier to find 50 stocks that can double in price or just one stock? Of course it is easier to find just one! And this is why the greatest investors in the world concentrate their investments into a few carefully selected stocks that have the potential to massively increase in value!

But isn't it highly risky to buy a few individual stocks? Indeed it is to the average investor with little financial intelligence. However, a master investor has the financial competence to select only very strong stocks that have low risk of loss and very high probability of success. His ability to do this comes from his analytical skills. He is able to understand and analyze the business behind the stock. So, the low risk comes from his knowledge of selecting the best

companies to invest in and not just merely spreading his money all over the place. This way, the master investor can achieve very high returns, with minimal risk! This is exactly what you will learn in this chapter.

Why Most People Lose Money in the Stock Market

Mention the word 'stocks', and many people have painful experiences to narrate. Stories abound of how people have had their life savings wiped out overnight. Or money they have borrowed to buy a 'sure, hot stock' was lost when the stock suddenly took a nose dive. Ever since I was young, my parents and grandparents warned me to stay away from the stock market, and tell me that it is safer to leave my money in the bank.

So, is it true that most people lose money buying stocks? The answer is Yes! But how can this possible? We know that the stock market as a whole has been consistently increasing in value for the last fifty years at an average rate of 8.57% and 12.08% in the last twenty years! The main reason is that most people who purchase stocks are ignorant of the business behind the stock. It doesn't mean they are not intelligent people. It's just that they lack the 'financial intelligence' to understand, analyze and buy businesses.

We have to know that when we buy a stock, we are actually buying a share, an ownership, in an ongoing business. Instead, most people treat stocks like lottery tickets, buying and selling based on predictions of whether the price will go up or down in the short term. Because stock prices go up and down randomly and erratically based on world events, there is no way anyone can consistently beat the market by attempting to read it! Which is why, in the long term, the average stock player loses money.

Let me ask you this question. If a whole bunch of people with no advanced driving skills were given the keys to drive a Formula One race car at 230km per hour round a circuit, how many would crash after a few rounds? Probably most of them! Well, this is exactly what is happening in the stock market today! The majority of investors are made up of the general public who enter the market looking for riches without any financial or business training and, as a result, crash and burn! To these people, investing in stocks is indeed a high risk, sure-lose venture. They treat the stock exchange like it is a casino.

So without financial and business training, how do most people make decisions on buying and selling stocks? The answer is based on fear and greed. It is the combination of ignorance, fear and greed that motivate people to buying a stock when the price is too high and selling it when the price is too low, resulting in a loss.

Before going on, it is important to understand when a stock's price is considered high or low. For example, is a US$52 stock more expensive or a S$0.90 one? Before answering this question, consider another question first. Is a $500,000 property more expensive or a $1 million property? Obviously, it depends on the size, location and structure of the property. If it was a two-room public housing flat selling at $500,000, then it would be extremely expensive and buying it would definitely result in an immediate loss. However, if the $1 million property being sold is a 10,000 square foot bungalow in a prime district with a valuation of $5 million, then $1 million would be considered extremely cheap! Buying it would guarantee a profit as the intrinsic value is much higher than the price being asked!

But who would be stupid enough to sell something worth $5 million for just $1 million? Well, it is happening every single day in the stock market! There are so many instances of investors selling a stock that is truly worth $80 for just $40! Why? Because the typical stock buyer has no idea how much the company's stock is really worth and tends to sell based on fear which in turn is based on bad news!

At the same time, there are people out there in the market paying $10 a share for something that is only worth $2. Why? Because they have no idea how much the company's stock is really worth and pay a crazy price simply because everyone else is doing it. It's like paying $500,000 for a two-room flat that is only worth $150,000. This is exactly what led to the dotcom bubble bust up in 2000 when people were paying $100 a share for companies that were worth nothing (the companies were making zero profits). When people started realizing that their stocks were worthless and panic selling ensued, the whole market crashed and millions lost their life savings.

Herein lies the opportunity for you, if you learn the business and financial skills of how to read a company stock's true worth. While the majority of people play the stock market and lose, you will learn how to invest like the people who make calculated investments in the stock market and win! So, instead of playing the stock market, you will learn how to play the people who play the stock market.

Similarly, it is impossible to tell if a US$52 stock is more expensive or a $0.90 stock, until you know the stock's intrinsic value. A stock's value is determined by how much profits the company generates every year and how much this profit is expected to grow in the future. You will learn exactly how to calculate this in the later part of this chapter. For now, let's look at a real life example.

In 2004, American International Group (AIG) reported a net profit of $9.731 billion with a projected growth rate of 12%. Based on this, it was calculated that the intrinsic value of one share is about $80. However, in April 2005, it was selling at $52 a share. In this case, AIG's stock is considered undervalued and cheap! By buying it at US$52, you can be quite confident that in time, you will definitely make a profit.

> 'It's not risky to buy securities at a fraction of what they are worth'
> – Warren Buffett

Consider the opposite scenario. In 2000, Links Island Holding's (a Singapore land reclamation company) stock value was approximately worth $0.12. However in that same year, speculators drove its price up to $0.90! At this price, the $0.90 stock is considered overvalued and extremely expensive. Buying it would mean an immediate loss! In other words, whether a stock is expensive or cheap does not depend on its absolute price, but it depends on its price relative to its intrinsic value. Sure enough when the euphoria died down, the stock crashed below $0.10, killing those who had no idea of the true worth of the stock when they bought it.

Again, most people lose money in the stock market because their ignorance, fear and greed causes them to buy a stock when it is high (overvalued) and sell when it is low (undervalued), resulting in loss. Why is this so? Well, the average investor tends to buy a stock out of greed when:

- Everyone is buying the stock
- They receive a hot tip from a friend
- The stock is rated 'strong buy' by stockbrokers
- They see the stock price rising, so it gives them confidence
- It is a bull market where the majority of stock prices are shooting up.

Unfortunately, all these are usually indications that a stock is expensive and overvalued! That is why most people experience the stock price dropping the moment they buy it. You see, when everyone is buying the stock because of some favourable news, demand usually pushes up the price beyond its true value.

Buying because you got a hot tip from a friend is another suicidal reason to buy. By the time you get this 'hot tip', many others would have bought before you and their greed would again have sent the stock price up so by the time you buy, it is already well overvalued. You see, when stockbrokers and analysts rate a stock highly, professional traders would already have gone in to buy and wipe out any chance of you making any profit. In the later part of this chapter you will learn that the best deals are those that are overlooked by stock analysts. Finally, the general public tends to invest in times of strong economic growth where they see that stock prices have been rising for quite some time. Again, it is during these economic booms that stock prices get very overvalued and by the time you enter, you will be ready to experience the crash!

At the same time, most people tend to sell out of fear when:

- Everyone is selling the stock
- The stock is rated a 'sell' by stockbrokers
- They see the stock falling, which triggers a fear of more losses
- It is a recession and people are losing jobs while stock prices are crashing

Again, unfortunately, these are usually the times when a fundamentally strong stock becomes undervalued and cheap! When everyone is selling the stock (usually stemming from some kind of bad news), the sudden supply usually drives the stock price way below its true intrinsic value. Sometimes, when a stock's price is falling, it is an overreaction to some bad news that does not affect the company's fundamental value at all. In such times, the stock again becomes undervalued!

Most of all, many people start selling their stocks when they experience a severe recession, when pay is cut and jobs are lost. Out of fear and the need for cash, many people sell their stocks at this time. However, you will learn later on that it is during times of recession and wars that it is the right time to buy as panic selling causes most stocks to become extremely cheap and undervalued.

You will learn that the world's greatest investors made their highest profits by buying during the worst disasters when everyone was selling and nobody dared to buy.

So, how do we ensure that we buy low and sell high? How do we buy when the stock is undervalued and sell when the stock is overvalued? Besides just learning the basics of finance and analyzing businesses, we will go one step further by getting into the mind and modeling the strategies of the world's greatest investor.

Modeling the World's Greatest Investor… Warren Buffett

How do you achieve excellence in any area within a short period of time? The key is through modeling. Modeling is the technique of finding role models who are the best in their field and then studying and distilling the mental models and strategies that make them the best in what they do. By learning and applying their strategies, you will be able to produce the same phenomenal results they do, or maybe even better. While the role model may have taken thirty years of trial and error to find the winning formula and perfect his strategy, you will be able to shorten your learning curve considerably by replicating his winning patterns.

In fact, if you study the most successful people in history, they all employed the power of modeling. They believed in standing

upon the shoulders of giants rather than to re-invent the wheel. The Wright Brothers and early flight pioneers got their ideas of aircraft design by modeling the body structure and flight movement of birds. Ancient Chinese monks developed the art of Kung Fu by observing, modeling and imitating the fighting techniques of animals (tiger, monkey, snake and bear) and insects (praying mantis).

The government of Singapore managed to turn a 'dot' on the world map; basically only a trading port, into a first world economy with a GDP (Gross Domestic Product) per capita ranked 18th in the World (World Development Report, 1993) in just 28 years! This was achieved by modeling the best practices of countries like Switzerland (governance and banking), Israel (warfare), the United States (Commerce) and the United Kingdom (law and education). As you can see, modeling is not just about copying someone else. It is about distilling the best practices of a whole range of excellent role models, taking the best from each of them and developing an even more powerful strategy.

So if you want to be an excellent investor, who better to model than Warren Buffett, the world's greatest investor? Warren Buffett is currently the second richest man in the world with a personal fortune of $42 billion (second only to Bill Gates $46 billion). The amazing thing about Buffett is that he made all his money without making or selling any kind of product or service. He made it entirely by investing in the stock market. Over the last 49 years, he managed to achieve a 24.7% annual compounding rate of return, which means he made his money double every 2.9 years! How does he achieve this remarkable feat when 97% of professional fund managers cannot even beat the S&P 500 consistently every year? That's exactly what got me so excited to study and model this genius a few years ago.

By reading every single book written about Buffett as well as his own personal writings, I found that the beliefs he has about the stock market and the strategies he uses go completely against what mainstream finance teaches and what professional fund managers do.

Modeling Buffett's ideas and strategies have certainly paid off for me. After losing lots of money in the past, I have been able to personally grow my money at an average of 22% over the last six years. In fact today, 20% of my income and profits is derived from

my investments. Many others have done the same. Using Buffett's investing methodology, Curtis Montgomery who runs an investing education website called wallstraits.com has managed to achieve a 20% annual rate of return since 2000! On www.wallstraits.com, he displays his winning portfolio to anyone who registers as a member.

How did Warren develop his genius? Was he just born with the talent for picking stocks? No. In fact, he developed his phenomenal abilities at a very young age by modeling two geniuses of the stock-investing world at the time. They were Benjamin Graham (the father of value investing) and Philip Fisher (the father of growth investing).

At the age of 19, Warren Buffett read Benjamin Graham's groundbreaking book 'The Intelligent Investor'. It was here that Buffett first learnt that it was impossible to consistently predict trends in stock prices (which goes against what most finance books and professionals teach and advocate... even till today). While finance academics taught that the market was rational and efficient (even up till today), Benjamin Graham taught that the stock market was irrationally driven by fear and greed and always tended to overvalue a company's stock when there was good news and undervalue a company's stock when there was bad news.

He developed a systematic way to determine a stock's true intrinsic value and taught that by buying a stock when it was undervalued, the investor could make a huge profit when the market eventually overvalued the stock. Buffett was inspired by what he read and began applying all the principles taught, and that was how he first started making huge returns in the stock market.

He further modeled Graham by becoming his student at Columbia College and by later joining Graham's firm as a stock analyst. In a few years, Buffett eventually surpassed Graham in his stock picking abilities. While Graham only taught investors to buy cheap, undervalued stocks, another genius investor named Philip Fisher developed a new approach known as growth investing. Besides just looking for cheap companies, Fisher taught people how to identify strong businesses that would grow their profits into the future.

Warren started modeling Fisher's techniques by reading his book 'Common Stock and Uncommon Profits'. By combining the ideas of both geniuses and further refining them, Buffett has

become the most powerful investor in the world! So what stops you from modeling Buffett and becoming a powerful investor? Absolutely nothing.

If you learn and use the same recipe, you are going to produce the same cake. So, let's get started! Before modeling someone's strategies and techniques, it is first important to understand and model the person's beliefs. A person's beliefs is what drives their decision-making patterns and the actions they take. The reason why Buffett is able to make more money than any other investor in the world is because he has very different beliefs about how stock markets acts and how to buy stocks. If you want to model his success, the first thing to do is to adopt his beliefs!

Beliefs & Behavior of the Average Investor	Beliefs & Behavior of Warren Buffett
1. The market is rational. Stock prices reflect the value of the company stock.	1. The market is irrational – it is driven by fear and greed such that prices do not reflect the true value of stocks in the short term.
2. I must predict the market's next move to make returns. If I can't predict the market, there is someone else who can.	2. The ability to make predictions has nothing to do with investing success. No one can predict the market consistently.
3. I must take big risks to make big returns	3. When you understand the business behind the stock, you can make huge returns with little risk.
4. I should diversify funds into many small-holdings to reduce risk.	4. Identify a few great companies and make substantial investments in these companies.
5. Buy when price is rising (good news) and sell when price is falling (bad news). Focus on the short term.	5. Buy great companies when price is falling (bad news) and sell when price is rising (good news). Long-term value focused.
6. Tends to make decisions based on emotions. Buys motivated by prospects of immediate/big profits (greed) and sells based on fear of loss when prices fall.	6. Make decisions based on strict criteria. Buy stocks when undervalued and sell when overvalued.

Belief #1 The Market is Irrational. Stock Prices Do Not Always Reflect the True Value of a Company

All finance textbooks and courses teach us that the market is rational and efficient (That's what taught me in school) and that stock prices accurately incorporate all available information. As a result, most investors believe that stock prices reflect the true value of a stock and that it is impossible to beat the market unless you have insider information or special tips.

Master investors like Warren Buffett believe that in the short-term, the market, which is made up of millions of buyers and sellers, is irrational. Stock prices are driven by the demand and supply of a stock, which in turn is driven by the emotions of greed and fear. When there is bad news (e.g. high oil prices, threat of war, recession etc...), fear makes the market over-react and causes stock prices to plunge below their true value. At the same time, when there is good news (e.g. company reports higher profits, low interest rates and high economic growth), optimism and greed causes the market to overreact and this sends stock prices rocketing above their intrinsic value.

Warren believes that the irrational pricing of stocks gives him the perfect opportunity to make money. By knowing the true value of a company's stock, he buys when the market undervalues the stock because of bad news and sells when the market finally recovers or overvalues the stock because of good news. Buffett never uses insider tips – he believes that the greatest source of information is a company's annual report, because it will tell you the true worth of the company.

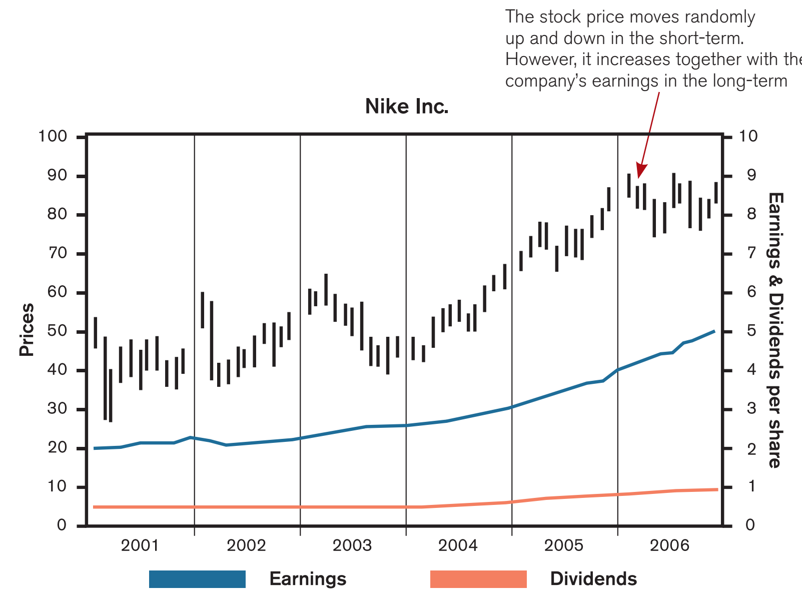
Belief #2 Predicting the Market's Next Move has Nothing to Do with Investing Success

Most people believe that you must predict the market's next move in order to make profits. They believe that good investors are those that can accurately predict whether stock prices will go up or down the next day. This is driven by the fact that most investment newsletters, news and reports focus on making stock market predictions (e.g. the Market will rally up to September and hit 10,800 points). And the average person believes that if they cannot predict the stock market, then there are gurus who can.

The truth is that it is impossible to consistently predict the way the market will move. Hundreds of events in the world like oil prices, war, terrorism, economic downturns/upturns and political developments (eg. Death of a Prime Minister), drive prices up and down randomly everyday. Most predictions by so-called experts are usually wrong, but a lucky guess once in a while will keep people believing that the market can be predicted.

Master investors like Buffett believe that they cannot predict the market's short-term ups and downs so they don't bother to do so. Instead, by understanding and analyzing a company's business fundamentals, he can predict with certainty that a particular company's profits and stock value will increase overtime and that the stock price will eventually rise to reflect the true value or even beyond its true value when the market picks up.

For example, Buffett bought Nike's stock because after analyzing the company's business model, he could predict with certainty that its earnings (in green) would continue to increase over time. As a result, although its stock price moved up and down randomly in the short-term (from random good and bad news), it increased together with the earnings and the value of the company over time.



Source: www.corporateinformatiom.com

Belief #3 I Can Make High Returns at Minimal Risk

All finance courses, investment textbooks and experts teach the general public that they must take high risks to make high returns. As a result, most people believe that you must be a risk taker to succeed in the markets.

The truth is that master investors like Warren Buffett do not believe in taking big risks. In fact, Warren believes in capital preservation. Recall that his first rule of investing is; 'never lose money'. As mentioned earlier, risk depends on your level of competence. When you know little about what you are investing in, stocks are extremely risky. Because Warren will put his money only into investments which he fully understands and that have a very high probability of success, there is little or no risk.

Belief #4 It is Better to Concentrate My Funds in a Few Great Companies

Again, the general belief most people have and what most finance experts' advise is to diversify one's money into hundreds of stocks, bonds & funds spread over different countries. The belief is that by spreading your money everywhere, you reduce your risk.

However, master investors believe that broad diversification is only for investors to protect themselves against their own ignorance. When you don't know what you are doing, of course it makes sense to put your money everywhere so that you have a lower chance of losing it all. The problem is that when you diversify into too many stocks, it is impossible to understand any single investment well enough to make good decisions. While broad diversification reduces risk, it also reduces your chances of high returns.

Warren believes in identifying and focusing only on a few great companies and taking huge positions in them. By focusing only on companies that he understands (within his circle of competence) and can analyze thoroughly, he is able to generate the highest returns from these companies.

Belief #5 Buy a Great Company's Stock When the Price is Falling and Sell When the Price is Rising

Most people who make up the stock market (including professionals on Wall Street) are short-term price focused. They believe in buying a stock when its price is rising as a result of good news and selling it when its price is falling as a result of bad news. While this form of trading, known as momentum trading, can certainly make money, luck and entry timing are crucial. Unless you are staring at the stock monitor for nine hours a day, you will usually enter too late or exit too early.

Master investors like Warren take a selective contrarians' view instead. They believe in buying great companies when the price is falling because of bad news and selling when the price is rising because of good news. This way, he buys companies that are highly undervalued and sells them when they are overvalued.

> **Caution:** Be aware that the above-mentioned strategy is only used under two factors. First, the company must be financially strong with a high certainty of earning higher future profits. Second, the bad news that drives the price down must be temporary and must not affect the company's long-term ability to make profits. Examples of bad news that depress a company's stock temporarily are war, recessions, rumors or stupid mistakes made by the management that are recoverable.

Belief #6 Make Decisions Based On Strict Criteria, Never On Emotions

Most people allow their emotions to drive their investment decisions. When they see stock prices rising and other people making money, their greed drives them to buy, usually at an overvalued price. At the same time, when they see prices falling because of bad news, their fear causes them to panic and they stampede to sell at a low price, thus ending up in a loss situation.

Master investors like Warren Buffett never let their decisions be driven by emotions or what other people are doing. Master investors always follow strict criteria for buying and selling companies and stick to their criteria, no matter what. In the next part of this chapter, you will learn the 8 criteria that master investors use.

Now you know why most people lose money in the stock market? It's because most people's fundamental beliefs with regards to investing are totally different from those of master investors. In other words, we have all been brainwashed to become poor investors.

The Strategy of the Master Investor

Now that you know the beliefs that drive master investors like Warren Buffett, let's find out the specific strategies they use to make sizable returns in individual stocks. There are three major steps that master investors take and they are: (1) identify very good businesses, (2) buy them only at a huge discount and (3) wait for the market to realize its true value or overvalue it.

Step 1: Identify Very Good Businesses

Always remember that when you are buying a stock, you are not buying a lottery ticket but you are buying part-ownership of a company. If you want the value of your stock to increase over time, you must identify and invest in very good businesses. Thus, you must truly understand the business behind the stock. All master investors invest from a business perspective.

What is a very good business? It is one where we can predict with confidence that, over the long-term, it's annual earnings and hence stock value will increase (if a company can make increasingly higher profits in the future, it would become more valuable). When the value of the company increases, the stock price will eventually increase.

While bad news and disasters like wars, recessions and new competition will always cause the market to panic and stock prices to plunge, a very good business is one that we are confident will always recover and prosper after such events.

In the next part of this chapter, you will learn specifically how to select companies that are financially strong and have a high certainty for growth. In this case, you don't have to depend on market predictions for your stock's price to rise, but you are certain it will rise because of its strong business fundamentals and earnings.

Step 2: Buy Them Only At A Huge Discount

Very good companies with strong earnings, financial strength and high growth potential are usually expensive to buy (the stock price is overvalued). However, the market always goes through booms and busts and there will always be short-term bad news that hits a company (e.g the company reports lower than expected profits). It is under these circumstances that the irrational short-term orientated market will panic and sell the stock until its price is way below its intrinsic value.

The master investor, knowing the true value of the stock, will buy as much as he can at such times, thereby getting a huge 'discount'. He knows that the market will eventually come to its senses and recover, correcting the stock price and bringing it up to its true value. This is when very substantial returns are made for the investor who is patient and confident in his purchase.

Step 3: Wait for the Market to Realize a Stock's True Value or Overvalue It.

The best time to sell is when the stock market is booming or there is good news that makes the market overreact. Investors will flock to buy up so much stock that the prices of all stocks rise above their intrinsic value. When a stock is highly overvalued, it is a good time to sell as you will make a huge profit.

> **Important:** Once again, it is very important to remember that you should only buy a stock when the bad news that hits the company is only temporary and will not affect its long term growth and profitability. If the bad news may cause permanent damage to the company's profits, (e.g. costs of raw materials spiral up, profit margins drop because of intense competition) then it is a poor investment and the stock's value will probably never recover.

This strategy is exactly how Warren made millions of dollars in profits consistently every year for the past 50 years. One of his first major investments was in American Express back in the 1960s. At that time, American Express was being sued for negligently verifying a collateral that did not exist. The company was ordered to pay $60 million in damages and this almost wiped out all its shareholder's

equity (if you are not sure what it is, don't worry, you will learn it in the next section). The market panicked and sent Amex's stock price crashing from $60 in November 1963 down to $35 in early 1964! However, Warren knew that though the company lost more than 90% of its value from the lawsuit, it could, over time, easily make back all its losses and a lot more.

This is because American Express was the number one credit card company in the United States. Its monopoly of the credit card market was not affected at all and its travelers cheques business remained intact. Knowing that the loss was only temporary and that Amex could easily make everything back and more, Warren invested 40% of his capital and purchased a huge amount of Amex stock (4% of the total outstanding stock). Two years later, he sold for a $20 million profit.

Another example is when toy maker Mattel acquired The Learning Company in 1999. It turned out to be a bad move as The Learning Company made huge losses and Mattel lost $200 million as a result. The market panicked and sold down Mattel shares from $46 in 1998 to $9 in 2000! Once again, Warren knew that the market had overreacted and that the loss was temporary. By selling its loss making subsidiary and focusing on its winning toy brands like Barbie, Mattel could easily make back everything and a lot more! Sure enough, in 2001 the price eventually recovered to $18, making Warren a 100% profit in one year.

How I Made A 35% Profit Buying AIG Stock

Let me give you a recent example of how I have profited from this strategy. In mid February 2005, AIG announced that it was being investigated for accounting irregularities that artificially inflated its value by US$1 billion to US$3 billion. Fear that the stock may be worth a lot less than what was reported sent the market into a panic and millions of AIG shares were sold, sending the stock price from $74 to $50 (a 24% drop). I saw this piece of bad news as a tremendous opportunity as I believed that the market had overreacted and the stock price was now way below its intrinsic value. AIG is a great company and the bad news was only a temporary setback. Here are four reasons:

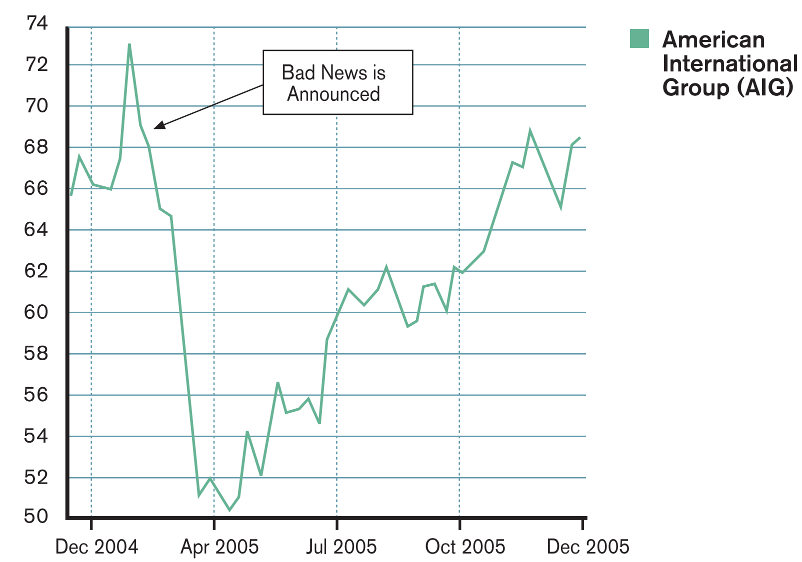
1. Although a $3 billion overstatement may seem big, AIG's net worth of $79 billion means that the company's value may only be overstated by 4% ($3 billion ÷ $79 billion). So a 25% drop in stock price is a major over-reaction.

2. AIG's long term earnings and growth will probably not be affected at all as AIG is only a holding company and its portfolio of insurance companies are not implicated at all. The firm's foreign life insurance (e.g. AIA), aircraft leasing and asset management products should deliver profits as per normal.

3. AIG's companies have strong competitive advantages (huge distribution network) that will continue to lead to high earnings growth and stock value increase.

4. The CEO who is believed to be responsible for the irregularities had resigned and external auditors had been appointed to clean up the company's accounts for the past five years.

As a result, I invested a sizable amount of money into buying AIG stock at an average price of $51, knowing that its intrinsic value was really about $80. Sure enough, within nine months, the market regained its sanity and pushed the stock price to $69, giving me a 35% return!



The Language of Money and Business

Before you can identify very good businesses and determine their intrinsic value, you must first understand some basic finance and accounting, which is the language of money and business.

> 'If you don't understand it, don't do it'
> – Warren Buffett

If you already have a background in finance or accounting, then what I am going to go through will seem pretty basic so you can skip this part and go straight into the '8 Criteria of Buying a Great Business at a Great Price'. If you don't know how to read a company's financial statements, then it is really important that you understand the basics. And don't give yourself the excuse that you are no good with Math or numbers. Understanding how to read and analyze financial statements is essential to creating wealth.

Your ability to do this will not only make you a powerful investor, but it will also allow you to manage your own company, home based business or personal finances with precision. In order to analyze a company, you must learn to read three financial statements; the 'balance sheet', the 'profit and loss statement' and the 'statement of cash flows'. They are like a company's report card, telling you how well they are making money.

Financial Statement 1: The Balance Sheet

The first financial statement you must learn to read is the 'balance sheet'. This tells you how financially strong a company is. Companies that are financially strong are able to recover from recessions and business mistakes the management might make.

The balance sheet tells you how much a company owns (assets) relative to how much it owes (liabilities) at a particular point in time. The difference between the two is its Shareholders' Equity (Equity). Equity is the value of the company that the investors own.

Therefore **ASSETS (OWN) – LIABILITIES (OWE) = EQUITY**

Or it can be expressed as **ASSETS = LIABILITIES + EQUITY**

It therefore, tells you the financial strength & stability of the company.

For example, imagine if the company bought a new factory for $10 million. If the company used its own cash of $2 million and took a bank loan of $8 million, its balance sheet will look like this:

Asset	: $10 million	The value of the factory
Liability	: $8 million	The amount owed to the bank
Shareholders' Equity	: $2 million	The amount owned by shareholders

A Balance Sheet Must Always Balance

The reason it is called a balance sheet is because total assets must always balance with total liabilities + shareholders' equity.

ASSETS = LIABILITY + EQUITY

When assets increase, then (Liability + Equity) must increase to balance it. For example, in order to purchase a new factory (asset), the company must either borrow money (increase in liability) and/or get more investors to invest money by selling shares (increase in equity).

Similarly, when assets decrease, then (Liability + Equity) must also decrease to balance. Below is a simplified example of a balance sheet you might come across.

Success Ltd's Balance Sheet

ASSETS	$(millions) 2002	2001
Current Assets		
Cash & equivalents	284	205
Account receivables	842	827
Inventories	644	697
Other current assets	328	370
Total Current assets	$2,098	$2,099
Long Term Assets		
Plant, property & equipment	1,874	1,872
Investments	633	337
Intangible assets	169	171
Other assets	415	390
Total long term assets	$3,091	$2,770
Total Assets	**$5,189**	**$4,869**

LIABILITIES	$(millions) 2002	2001
Current Liabilities		
Short-term debt	412	458
Accounts payable	315	251
Payroll	137	180
Income taxes owed	173	199
Other current liabilities	449	416
Total current liabilities	1,486	1,503
Long Term Liabilities		
Long Term debt	713	507
Other liabilities	933	830
Total Liabilities	**$3,132**	**$2,840**
Share Holder's Equity		
Common stock	2	2
Additional paid up capital	97	97
Retained earnings	1,958	1,930
Total Shareholders' equity	**2,057**	**2,029**
Total Liabilities + Shareholders' Equity	**$5,189**	**$4,869**

Total Assets = Total Liabilities + Shareholders' Equity

Understanding Assets

There are two major categories of assets. Current assets and Long-term (non-current) assets.

Current Assets

Current assets are assets that are likely to be used up or easily converted to cash within a year. Current assets include: Cash & equivalents, Accounts receivable & Inventories.

a. Cash & Equivalents

This includes how much money the company has in its savings and checking account. It also includes fixed deposits and one-year bonds that the company can turn into cash quickly without much price risk. Having enough cash is a good sign as it shows that the company can easily meet its monthly expenses and keep the business running smoothly. However, having too much cash is also bad as it shows that management is not putting its investors' money to good use where it can generate a higher rate of return. In this case, a good company should return excess cash back to shareholders in the form of dividends.

b. Accounts Receivables (AR)

This is the money that is owed to the company by customers who have already purchased the company's products or services but have not yet paid. These I.O.Us are expected to be paid within 30-90 days, depending on the nature of the business. If account receivables are increasing at a much faster rate than sales, it is not a good sign. It means that the company's credit policy is too lax and the company is not efficient at chasing for and collecting money. Accounts receivables or AR can quickly turn into bad debts when things drag on for too long.

c. Inventories

Inventories are important to watch in manufacturing and retail companies. They include raw materials, partially finished products and finished products yet to be sold. The value of inventories must

be looked at skeptically as its market price is often way below its value on the balance sheet.

Having lots of inventory lying around for too long is no good because it ties up cash that could be better put to use elsewhere. Also, the longer the inventory stays, the faster its value will drop.

A company with a higher inventory turnover = $\frac{\text{Cost of Goods Sold}}{\text{Inventory Level}}$

is a lot more efficient at turning around its inventory!

Long Term (Non-Current) Assets

Long-term assets are assets that are not expected to be converted into cash or used up within a year. They include property, plant & equipment (PPE), long-term investments and intangible assets (goodwill).

a. Property, Plant & Equipment (PPE)

These assets form a company's infrastructure and this includes buildings, land, plant, machinery equipment and so on.

b. Long-Term Investments

This includes money invested in long-term bonds or stocks in other companies.

c. Intangible Assets

Intangible assets include the value of intellectual property (patents, copyrights, trademarks) the company owns as well as its goodwill. Goodwill is the additional value investors are willing to pay over the book value of the company's equity. If you take Nike for example, the majority of its value is NOT in the property or factories it owns. In fact, it hardly owns any factories. All its products are outsourced to manufacturing companies. Most of its value is in the Nike Brand. The value attached to Goodwill is very subjective and should always be taken with a lot of skepticism.

Understanding Liabilities

Again, there are two major categories of liabilities. Current Liabilities and Long-term (non-current) Liabilities.

Current Liabilities

Current liabilities are what a company owes and are due to pay out within a year. They include:

a. Account Payables (AP)

These are bills that a company owes to individuals (like staff salaries) and other companies (suppliers) that are due to be paid within a year. It is kind of like phone bills and credit card bills we receive each month and are yet to pay.

b. Short-term Borrowings

This is money that a company borrows for less than a year. This is usually made up of a credit or overdraft line.

Long-Term (non-current) Liabilities

Long-term liabilities are what a company owes and can slowly pay back over a longer period of time. This usually includes long-term debt that the company has borrowed from the bank or bonds that it has issued to the public.

Financial Statement 2: Profit and Loss Statement

The second thing you must find out about the company you are buying into is how well it is making money. The profit and loss statement (also known as income statement) tells you how much accounting profits the company is making or losing during a year or a quarter. Obviously, a company that earns higher profits for its shareholders will have shares that will be worth a lot more. Below are the various components of a profit and loss statement.

(Note: Income, profit & earnings are used interchangeably. E.g. net income is the same as net profit or net earnings. Figures in brackets represent negative numbers.)

Basically the formula for determining net income is:

Sales Revenue
– Cost of Goods Sold
= Gross Profit
– Operating Expenses
= Operating Income
– Interest expense
+ Interest Income
= Income before Taxes
– Income Tax
= Net Profit after Tax (or Net Income)

Here is an example of a simplified Profit & Loss Statement.

Success Ltd's Profit & Loss Statement

	$ (in million)
Sales Revenue	$5,444
Cost of Goods Sold (COGS)	($2,832)
Gross profit	**$2,612**
Operating Expenses	
Sales & marketing	($1000)
General & Administrative	($240)
Research & development	($300)
Depreciation	($57)
Total	**($1,597)**
Operating Income	$1,015
Interest Expense	**($ 27)**
Interest Income	$ 13
Income before Taxes	**$1,001**
Income Taxes	($322)
Net profit after tax	**$679**
Earnings per share	$2.78
Number of shares outstanding	244.245

Note: All figures are in millions

Let's find out what all the different components really mean.

Sales Revenue

Also known as just 'sales' or 'turnover', it represents how much money the company has brought in over the period. Sales Revenue

= Price per unit x Quantity of units sold. So if the company sold 100,000 widgets and each widget was priced at $10, sales revenue would be $1 million. In reality, companies have multiple products and services with multiple prices over various geographic locations and business units.

Cost of Goods Sold (COGS)

In order to sell the $10 widget, the company must obviously spend money to produce it. This is referred to as cost of goods sold. This represents all the expenses directly related to producing the goods or services for sale. So this could include certain salaries, raw materials, supplier costs or wholesale prices of goods.

Gross Profit

Gross profit (= Sales Revenue – COGS) tells you how much a company is able to mark up its product or services over the cost of producing it. For example, if it takes $6 to manufacture each widget which is then sold for $10, the gross profit per unit is $4. If the company sells a total of 100,000 widgets, the total gross profit will be $400,000. It is more useful when expressed as a percentage, such as Gross Margin (also known as profit margin) where:

$$\text{Gross Margin} = \frac{\text{Gross Profit}}{\text{Sales Revenue}} \times 100\ \%$$

In this case, Gross Margin is 40% ($400,000 ÷ $1 million x 100%). Companies who can maintain high Gross Margins above 25% for over five to ten years indicate that they have highly differentiated products and have a strong competitive advantage against competitors. This allows them to put high markups on their products, earning them higher profits. These are the companies we are looking to invest in.

We should always avoid companies with very low Gross Margins, as it means that they sell commodity-type products that have little competitive advantage over competitors. Since these companies compete mainly on price, they earn little over their costs. Such

companies are not worth investing in as there is a limit as to how much profits and stock value can grow.

Most important of all is to observe whether gross (profit) margins are increasing or decreasing over the years. A company with falling margins is a sure sign that it is facing greater and greater competition. This means earnings per share and stock price will decline over the years.

Operating Expenses

Besides the cost of producing its products or services, companies must also incur operating expenses (also known as overheads) that include fixed running costs such as marketing, administrative salaries, research & development, depreciation and non-recurring charges/gains (also known as extraordinary items).

Research & Development (R&D) & marketing are necessary expenses to ensure that the company continues to innovate better products and build its brand name. Unethical management sometimes cuts R&D & marketing expenses to boost short-term profit, but in the long term the company's earnings will fall as its products & brand become obsolete.

Depreciation is when a company buys a physical asset to last a long time (e.g. factory) and expenses its cost over a number of years. For example, a company buys a factory for $10 million and depreciates it over 20 years. So, every year, the depreciation expense is $500,000. Note that depreciation is a **non-cash** charge as the company does not actually pay out the $500,000 every year.

Non-recurring charges/gains are one off charges or gains that are not part of ongoing operations and not likely to be repeated. For example, the sale of a division will create an extraordinary profit while closing down a division could lead to a one-time loss.

Operating Income

Operating income shows the profit the company made from its actual operations. Operating income = Sales Revenue – Cost of Goods Sold – Operating Expenses. Take note that besides its actual operations, a company may make additional profits or losses from interest income (from money it puts in the bank) or from one off,

non-operational activities like selling an investment for a profit (this is known as extraordinary items).

Net Profit after Tax (also known as 'Net Income')

Net Profit After Tax represents the actual profit the company has made after deducting all expenses, including taxes. This figure is the most important to an investor as it shows how much goes to you as dividends or goes to retained earnings, which ultimately increases the company's value and hence its share price.

Net Profit after Tax
= Operating Income +/– Interest income/expense – Taxes

From a company's profit and loss statements, two very important ratios will tell you how profitable the company is (Earnings per Share) and how expensive the shares are priced (Price to Earnings Ratio).

Earnings Per Share (EPS)

As an investor, the most important thing you will want to know is how much of that net profit (earnings) is actually going to you! How much are you earning per share you own. So, you have to divide 'Net Profit After Tax' by the 'Number of Shares Outstanding'.

$$\text{Earnings Per Share (EPS)} = \frac{\text{Net Profit After Tax}}{\text{Number of Shares Outstanding}}$$

Success Ltd. makes a 'Net Profit After Tax' of $679 million and has 244.245 million shares. So, owning each share will earn you $2.78 ($679m ÷ 244.245m). So, if you own 100 shares, you will earn a total of $278 in profits! Part of this $278 may be paid out to you as a cash dividend or reinvested into the company as retained earnings. By reinvesting it into the company, you will ultimately benefit through higher future profits and a higher stock price.

Knowing a company's EPS is extremely important as it directly determines the share price. A company which can consistently increase its earnings per share will have a higher intrinsic value and a higher share price.

Price to Earnings Ratio (PE Ratio)

The Price to Earnings Ratio (PE) is the simplest & most common way to tell how expensive a stock is. It is the ratio of the 'Share Price' to the 'Earnings Per Share'. It tells you how many times more investors are willing to pay for a share per dollar earned.

$$\text{Price to Earnings Ratio (PE)} = \frac{\text{Current share price}}{\text{Earnings Per Share (EPS)}}$$

For example, Success Ltd's EPS is \$2 and current share price is \$40. This means that the share is priced 20 times more than its earnings. This is known as the Price-Earnings Ratio (PE ratio). So if EPS increases to \$3, the share price is theoretically valued at: Share price = EPS x 20 = \$3 x 20 = \$60.

If you think about it, the PE Ratio represents the number of years that it would take an investor to earn back his investment (share price) in the form of earnings every year (EPS). In this case, it means that if you buy the share at \$40 and earnings remain at \$2 per share every year, it will take 20 years to earn back your \$40. So, why would any investor want to wait 20 years to breakeven? This is because EPS is expected to grow every year! Investors know that if EPS continues to grow by let's say 20% every year, they will breakeven in less than five years. Just because a company has a much higher PE ratio, it does not necessarily mean it is more expensive as it depends on how fast EPS is growing each year.

The final financial statement that you must learn to read is the 'Statement of Cash Flows'. While the 'Balance Sheet' tells you the company's financial strength and the 'Profit & Loss Statement' tells you how well the company generates profits, the 'Statement of Cash Flows' will tell you how much cash is actually going into and coming out of the company. It is possible that a company makes huge

profits on paper, but has no cash coming in (due to manipulative accounting or the inability to collect money). In cases like this, the company will be forced into bankruptcy if it has insufficient cash flow to carry on its daily operations.

Financial Statement 3: The Statement of Cash Flows

A 'Statement of Cash Flows' records all the cash that comes into a company and all the cash that goes out. It tells you how much cash the company actually generated and how much it has used up over the accounting period.

Besides looking at the profit and loss statement, it's very important to analyze a company's cash flow as it will give you a true picture of the company's profitability & stability.

The difference between the 'profit and loss statement' and the 'statement of cash flows' is the result of accrual accounting. In other words, sales and profits are recorded when the sale is made, even though cash has not been received. At the same time, income taxes & depreciation are recorded as an expense, although there is no need to physically pay out the cash immediately.

A company can show a good earnings report on its income statement, but the cash flow tells exactly how much cash was received. Even if a company makes healthy profits, it may still be a lousy company to invest in because its customers do not pay up. Or the company must use up a lot of its cash for the maintenance of plant & equipment. Without adequate cash flow, the company cannot meet its monthly payments and could be forced into bankruptcy.

The cash flow statement is divided into three parts: Cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

The first section below shows you a typical **'Statement of Cash Flows: Cash Flow from Operating Activities'** section'. This shows you how much cash goes into and out of the company as a result of it selling its goods and services. In this case, although net income was \$680 million, in actual fact \$1,063 million of cash came into the company! This is known as 'Operating Cash Flow'. How is it possible that although the company made \$680 million

in profits, $1,063 million in cash came in? Again, it is because items like depreciation are deducted as an expense in the 'profit and loss statement', however the company doesn't actually pay out the cash. As you can see below, the 'Operating Cash Flow' is derived by taking the Net Income (Net Profit After Tax) and adding or subtracting all items below it to get the final net cash position.

Success Ltd Cash Flow Statement
Section I: Cash Flow from Operating Activities

Cash Flow from Operating Activities	**($in millions)**
Net Income (Net Profit after tax)	**$680**
Adjustments to reconcile net income to Net cash provided by operating activities.	
Depreciation & amortization	+318
Deferred income tax provision	+193
Pension contribution	-362
Changes in Assets and Liabilities	
Accounts receivable	-15
Inventories	+53
Other current assets	+41
Other assets	-25
Account payables	+97
Other liabilities	+83
Net cash provided by operating activities (Operating Cash Flow)	**$1,063**

The next section of the 'Statement of Cash Flows' is the **'Cash Flow from Investing Activities'**. This shows how much cash goes into and comes out of the company as a result of its investing activities. For example, when the company invests (buys) assets through acquisitions or capital expenditure (e.g. buying plant and equipment), cash flow decreases and when it sells an asset, cash flow increases. As you can see on the next page, $641 million went out of the company because of its investments (net cash used in investing activities).

Section II: Cash Flow from Investing Activities

Cash Flow from Investing Activities ($ in millions)	
Capital expenditures (CAPEX)	-254
Acquisitions	-419
Asset Sales	28
Other investing cash flow	4
Net cash used in investing activities	**-641**

The final section is the **'Cash Flow from Financing Activities'**. This shows you how much cash goes into and comes out of the business as a result of its financing activities. For example, when a company borrows money or raises capital by issuing new shares, cash flow increases. When the company pays back its loans, buys its own stock or pays out dividends, its cash flow decreases. As shown below, $327 million went out of the company as a result of its financing activities (net cash used in financing).

Section III: Cash Flow from Financing Activities

Cash Flow from Financing Activities	**($in millions)**
Purchase & retirement of short-term debt	-45
Purchase & retirement of long-term debt	+207
Purchase or sale of stock	-140
Dividends paid to shareholders	-323
Other financing cash flows	-26
Net cash used in financing activities	**-327**
Increase (decrease) in cash equivalents	**+95**
Cash at beginning of period	205
Cash at end of period	300

The final figure you have to look at is the 'Increase (decrease) in cash equivalents'. This tells you the overall increase or decrease in cash as a result of operations, investing and financing. In this case,

Increase (decrease) in cash equivalents
= Operating cash flow + Net cash from investing activities
+ Net cash from financing activities
= $1,063m – $641m – $327m
= $95 million

This means that at the end of the whole period, the company's cash increased by $95 million (from $205m to $300m). As long as the cash flow of a company is increasing each year it is a good sign. However, if cash flow is decreasing each year, it may be a bad sign (even though the company shows increasing profits).

Congratulations! You made it through the most technical part of this chapter and probably the most tedious (if this is new to you). However, know that before you buy any stocks, you have to fully understand the business behind the stock. Know this and you will be ahead of 70% of investors in the world who have no clue as to what they are investing in.

The good news is that you **don't** have to calculate all those figures in the financial statements. In fact, most of the time, you won't even have to read the company's actual financial statements (it can be pretty long). I will show you some great company research websites that will present all the necessary data to you for free!

Now that you know the basics of accounting, let's go to one of the most important chapters... learning the Eight Criteria of Buying A Great Business at a Great Price.

chapter 19

The Eight Criteria of Buying a Great Business at a Great Price

In this chapter, you are going to learn the specific steps that master investors use to buy the best businesses at huge discounts to their true value, giving you a fantastic opportunity to make massive profits. Although you will learn this strategy in the context of buying stocks of listed companies, the same rules apply in buying any kind of businesses.

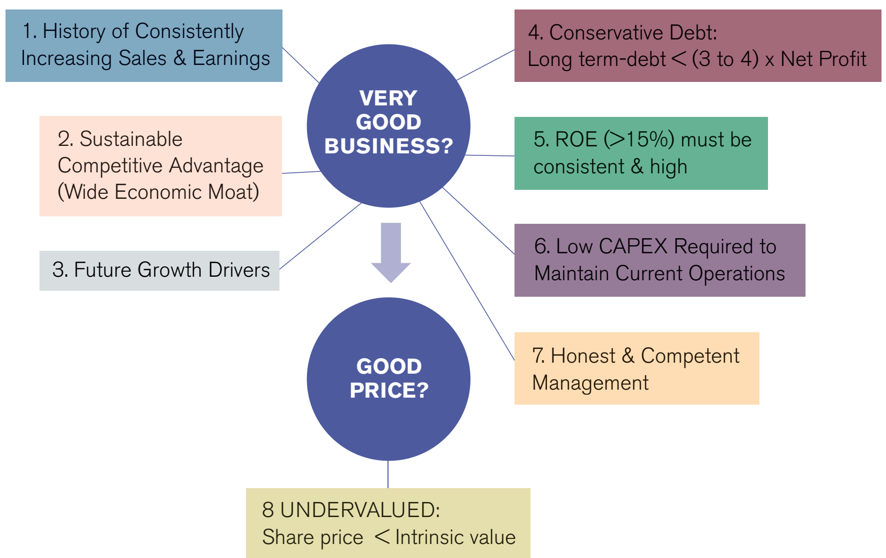
First, let's recall that the investment strategy of master investors is to:
1. Identify very good businesses
2. Buy them at a good price (a huge discount to its intrinsic value)
3. Wait for the market to realize its true value or over-value it

The first seven criteria (Criteria #1 to Criteria #7) are to help you identify very good businesses. Again, recall that a very good business is one that you are certain will:

1. Increase its Earnings Per Share (EPS) and hence its stock value. When the stock's value increases, so will its share price, thus earning you a profit when you decide to sell.
2. Be able to recover and prosper from bad news and disasters like wars, recessions, management errors and new competition.

Criteria #8 will help you to determine the real (intrinsic) value of the stock. By buying only when the stock price is much lower than the real value, you are giving yourself the chance to make a good profit when the market finally corrects itself. By employing this strategy of only buying at whopping discounts, Warren Buffett gives himself a wide margin of error so that it is almost impossible for him to lose money. This is how he achieves low risk and yet high possible returns. So, let's get started with the 8 criteria...

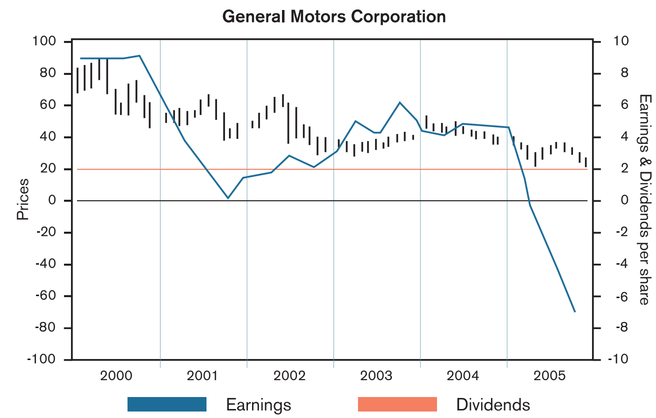
Overview of the 8 Criteria

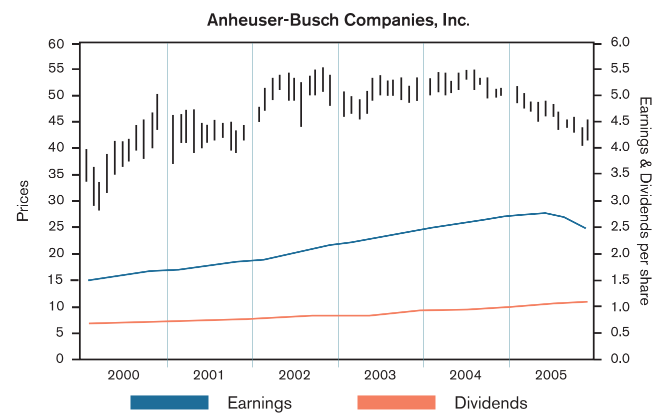


Criteria #1: History of Consistently Increasing Sales and Earnings

The first indicator of a good business that will consistently be able to increase its future earnings is its track record. If the company shows a history of consistently increasing sales and earnings over the last five years at least, especially during periods of recession, then there is a high chance it will be able to continue its performance.

If a company's past earnings show consistency, then future earnings will be more predictable to forecast with confidence. For example, look at General Motors Corp and Anheuser-Busch company's earnings (in blue) and price chart (in black). General Motor's past earnings are too erratic to predict with certainty. However, Anheuser-Busch Company's earnings can be forecasted with a lot more confidence.





Source: www.corporateinformation.com

Besides ensuring that earnings have been increasing consistently, it is also important to verify that sales have also been increasing. This is because earnings can be creatively manipulated by accountants (this unfortunately is very common), but sales cannot be changed. If a company shows earnings increasing with a corresponding stagnation or drop in sales, it sometimes means that the company is not really doing better but doctoring its books.

Where Do I find this Information?

Sales and earnings can be easily found by running through the annual reports of the companies you are researching. Just go to the section under 'Profit and Loss statement' or 'Income Statement'. Currently,

you can read a company's entire history of annual reports for free on the Internet at websites such as www.annualreportservice.com (for US companies) or www.listedcompany.com (Asian companies). Alternatively, just go to financial research websites like www.moneycentral.com or www.morningstar.com where you can read a company's entire history of financial statements for free.

Criteria #2: Sustainable Competitive Advantage

Although a company may have been able to increase its earnings in the past, there is no guarantee that it can continue to do so in the future. New competitors could enter and steal market share or cause price drops, forcing the company to experience lower sales and earnings.

So, what will prevent this from happening? What can ensure that competitors will not be able to capture customers, even if they lower their prices? The answer is a sustainable competitive advantage.

Let me give you an example. What allows Nike to sell more and more shoes every year, allowing it to consistently increase its earnings? Why can't competitors capture all of Nike's customers by offering a cheaper shoe? Even if you could invent a better shoe called Niko, could you take away all of Nike's customers? Highly unlikely. Why? The answer is because Nike's brand name gives it a competitive advantage.

People buy Nike because of loyalty to the brand and the powerful feelings that the famous Swoosh logo conveys! And sure enough, this competitive advantage it has against other shoe manufacturers will be sustained for many years to come, protecting it from any rivals. This is known as a sustainable competitive advantage. Like a wide moat around a castle, it protects the company's future profits from invaders. This is why companies like Nike are also known to have a wide economic moat.

However, a powerful brand name is not the only thing that gives a company a sustainable competitive advantage. Being a large company with huge economies of scale also provides a business with a wide economic moat. For example, it is very difficult for any competitor to compete with Wal-Mart stores or Amazon.com (largest internet bookstore). Because of their massive size, they are

able to buy millions of dollars worth of goods at whopping discounts, thus allowing them to price their items below anybody else.

Being a market leader is also a powerful competitive advantage. For example, VISA is so widely used as the number one credit card that almost all stores must accept it and almost every credit card user has to carry it. It would be almost impossible for anybody to start a new credit card and take away a huge chunk of VISA's business.

Sometimes, a company's sustainable competitive advantage could be in the form of a special formula, technology or a patent they own. Pharmaceutical companies are able to continually make huge profits because they own patents on specific drugs (e.g. Viagra, Panadol etc...) that no other company can legally copy and manufacture.

When you invest in a company that has a strong, sustainable competitive advantage that protects it against competitors and allows it to retain and build its customer base, you can predict with certainty that earnings and stock value will continue to increase.

In general, a company's sustainable competitive advantage can come from:

a. A Strong Brand (e.g. Coke, Nike, Hersheys, Budweiser etc...)
b. Patents and trade secrets (e.g. Pharmaceutical companies like Pfizer)
c. Gigantic Economies of scale (e.g. Wal-Mart Stores, Amazon.com etc...)
d. Market leadership that competitors will find very difficult to overtake in the next decade. (e.g. General Electric, VISA, Microsoft, Google.com)
e. High switching costs that lock in customers (e.g. Adobe, Stryker, Microsoft)

Characteristics of Sustainable Competitive Advantage Businesses (Wide Economic Moat)

So how do you know if the company you want to invest in has a wide economic moat? These companies usually sell a product or a service that is a consumer monopoly. This means that it is usually so unique and special that even if prices are raised, demand will still be strong. For example, even if Ferrari, Nike, McDonalds, Harley Davidson or Microsoft were to raise prices, people will still buy, as

it is perceived as 'nothing else comes close'. Because of low direct competition, these wide moat companies enjoy high profit margins and continually increase profits and stock value. Stores have to carry their products or risk losing customers. For example, a supermarket must carry Coca-Cola and a pharmacy must sell Panadol or they will lose customers.

Characteristics of Price-Competitive Businesses (Narrow Economic Moat)

On the other hand, avoid investing in companies that are price-competitive businesses with no real competitive advantage. These companies usually sell a commodity-type product that thousands of other businesses sell basically the same of. As a result, price is usually the most important factor in the buying decision. If this company were to raise prices by just 10%, they would lose many of their customers to a cheaper competitor. Petrol companies, manufacturers of raw materials, Internet Service Providers, Airlines, Telecommunications and Automobile manufacturers all fall into this category.

While it can be argued that companies like Mobil, British Airways and Starhub are strong brands, ultimately they cannot raise prices as they like and still retain all their customers. I will bet that if Starhub or British Airways were to raise prices by 20%, many customers would consider moving to a cheaper alternative. However, if a true consumer monopoly like Ferrari were to raise prices by 20%, many customers would still buy. As a result, price-competitive businesses usually have lower profit margins and erratic profits. Because they mainly compete on price, a lot of their earnings are usually re-invested to improve operational efficiency and not into building new products and creating markets that will further increase sales and profits.

COMPANIES

INVEST	DON'T INVEST
Sustainable Competitive Advantage Businesses (Wide Economic Moat)	**Price Competitive Businesses** (Narrow Economic Moat)
Consumer Monopoly	Commodity type product/service
Sells a product where the company is free to raise prices without affecting the demand.	Sells a product where price is the most important factor in the buying decision.
Very strong sustainable competitive advantage where there is little direct competition. • High profit margins • Consistent, increasing profits • Predictable future growth of share equity and prices	Lots of competition selling the same product or service. • Low profit margins • Erratic profits • Little future growth in share equity and price
Stores or distributors have to carry the product or lose money. People or businesses have a strong desire for the product or service.	Lowest cost producer always wins.
Examples: Coke, Singapore Press Holdings, VISA, Anheuser- Busch (Budweiser), Washington Post, Nike, Wall Street Journal, Harley Davidson	**Examples:** Internet service providers, Memory chip manufacturers, Airlines, automobile manufacturers (except for manufacturers of super luxury cars)

In the example of Anheuser-Busch Company which manufacturers branded alcoholic beverages like Budweiser beer, the business indeed has a wide economic moat. Its sustainable competitive advantage comes from:

a. Its Market Leadership and Strong Brand Loyalty
Anheuser-Busch's alcoholic beverages dominate 50% of the US domestic beer market. Its two nearest rivals together hold a mere 30% market share.

b. Its Monopoly of Distribution Channels
Because of its size, Anheuser-Busch demands exclusivity from 60% of its distributors – these distributors sell only Budweiser beer at a majority of liquor stores, supermarkets and beverage outlets.

These two factors will allow Anheuser-Busch to continue to increase its earnings and stock value in the future. By the way, Warren Buffett himself purchased a huge stake in this company in the fourth quarter of 2004.

Criteria #3: Future Growth Drivers

Having a good track record and a strong sustainable competitive advantage will not automatically translate into higher sales and profits in the future unless the company has concrete plans that will translate into the sale of substantially more goods and services.

If the company has no plans to create new products or to enter new markets then future sales and profits will not keep growing. You must ensure that the company you want to invest in has some of the following growth drivers:

- Development of new product lines
- Upcoming product innovations
- New application of patents
- Expansion in capacity (e.g. building bigger factories)
- Opening new markets
- Building more outlets
- Huge untapped market potential

To find out more about a company's future growth drivers, you can usually read it in the 'CEO's Message' or 'Letter to Shareholders' in its latest annual report. Alternatively, go to the company's main webpage and you will find it somewhere under 'investor relations'.

In the case of Anheuser Busch, its revenue growth are expected to be driven by:

- Growth in China through increased sales and acquisitions as China is the fastest growing beer market in the world. The company has already acquired 64 China breweries including Harbin, the country's fourth largest beer producer.
- Growth in Mexico. The company has acquired a 50% stake in Mondelo, Mexico's leading brewer and the brewer of Corona Beer.
- The continued rollout of a fresh portfolio of products that will create sales growth.

Criteria #4: Conservative Debt

While taking on some debt is a good strategy to raise cash for expansion, taking on too much debt can lead to bankruptcy during a prolonged recession or poor cash flow management.

It is important to ensure that the amount of money borrowed by the company is conservative and can be easily paid back within three to four years. The rule of thumb is that long-term debt should be less than 3-4 times Current Net Earnings (after tax).

Long Term Debt < (3 to 4) x Current Net Earnings (After Tax)

The company's long-term debt can be found in its balance sheet under 'long term liabilities' or 'non-current liabilities' and Net Earnings can be found in the Profit and Loss (Income) Statement.

In the case of Anheuser-Busch, its long-term debt is $8.27 billion and its 2004 net earnings is $2.24 billion. As $8.27 billion is less than 4 X ($2.24 billion), the company easily passes this criterion.

Criteria # 5: Return of Equity (ROE) Must be Consistent & High at ROE > 15%

Return on Equity (ROE) shows you how much profits a company is generating with the money shareholders have invested in it. ROE is derived from dividing Net Income by Shareholders' Equity (found in the balance sheet).

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Total Shareholder's Equity}} \times 100\%$$

ROE is a very important figure to look at as a company that shows a high & consistent ROE indicates that:

- The company has a sustainable competitive advantage.
- Your investment in the form of shareholders' equity will grow at a high annual rate of compounding that will lead to a high share price in the future.

Generally, a company that has a ROE of 12% is considered a fair investment. Companies that are able to generate a ROE of more than 15% consistently are very rare and considered great investments.

Because ROE is so commonly used in evaluating companies, you usually do not have to calculate it yourself. ROE figures are usually presented in a company's annual report under 'Financial Performance Summary' or under 'Financial Ratios'. You can easily find a company's history of ROE from www.morningstar.com or www.moneycentral.com under 'Key Ratios'.

As for Anheuser-Bush, its ROE from 1999-2004 was 36.8%, 40.83%, 55.56%, 72.37% and 83.32% respectively. Since its ROE is much higher than 15%, it is a highly profitable investment.

Criteria #6: Low Capital Expenditure (CAPEX) Required to Maintain Current Operations

Watch out for companies that generate high earnings BUT a substantial portion has to go back into replacing plant & equipment in order to maintain its current operations. Price-competitive businesses and capital-intensive industries (e.g. Manufacturing, airlines, automobile makers etc...) tend to have to spend a lot of their earnings to make their businesses even more cost efficient. Since re-investment of profits is not considered an expense but an asset, these companies' income statements make it seem like they are making lots of money. But in reality, there is no cash left to be paid back to shareholders or to invest in new products or markets that will drive growth.

This is why Warren Buffett avoids companies that require high capital expenditure to maintain current operations. He likes to invest in businesses that does not require much replacement of machinery, do not require intensive research and produces a product that never goes obsolete. Companies like Coca-Cola (one of Warren core holdings) have a product (i.e. Coke) that never goes obsolete. It can therefore take almost all of its cash from earnings and use it to pay dividends or to invest in new markets. Similarly Nike does not own many of its own factories and does not have to spend chunks of its profits to replace expensive machinery, making it cash rich.

The way to measure this is by looking at 'Free Cash Flow'. Free cash flow is the amount of cash a company is left with after it deducts all capital expenditures and Cash Flow from Operations (you can find both figures under the statement of cash flows).

Free Cash Flow = Cash Flow from Operations – Capital Expenditures

While you can calculate this yourself, research companies like www.morningstar.com will give you the figures (you can find this under the '10-year Cash Flows' section). Usually if (Free Cash Flow/ Sales Revenue) is greater than 5%, it is considered a great company with lots of cash left over.

In the case of Anheuser-Busch, its free cash flow in 2004 was $1.85 billion. Since sales revenue in 2004 was $14.93 billion, Free cash flow/ Sales revenue was 12.4% which is way above average!

Criteria #7: The Management is Honest & Competent at Capital Allocation

This is one of the most important criteria in evaluating a company; however, it is also the most difficult to ascertain. There are many companies run by CEOs and management teams that do not act in the shareholders' best interests, but in their own best interests. You must understand that CEOs and directors are just employees of the company and may not even be shareholders. As a result, some may pay themselves obscenely high salaries and have bulging expense accounts so that little profits are left for shareholders.

Some unethical CEOs have been known to cut important expenses like advertising and research & development to boost profits in the short-term, making the company appear good. You could call it 'window dressing'. However, in the long-term, the company loses market share and the stock price falls. In order to ensure that your stock value goes up in the long-term, it is important to ensure that the directors running the company are honest and competent.

So, before investing in a company, you must ask yourself these questions:

- Does management act in the best interest of the shareholders?
- Does management take actions that maximize long-term profits and shareholder value?

Again, it is not easy to ascertain, but here are a few signs that could indicate whether management is aligned to shareholder's interest or not.

Honest & Competent	Dishonest or Incompetent
Keeps a substantial portion of their wealth in company stock.	Sells a large proportion of company stock. Chooses to keep a small interest in the company's stock, investing their funds elsewhere.
Minimizes unnecessary executive luxuries thereby minimizing costs of operations. Relatively low basic salary with high performance incentives.	High basic salaries with huge expense accounts. Excessive and extravagant expenditures like fitting a gold tap in the bathroom.
Long-term focus. Rather maintain or increase short-term investment costs (lower short term profits) in order to ensure long-term increase in shareholder value.	Short-term focus. May cut Research & Development, Advertising or other investment costs to boost short-term profits, but compromise on long-term competitive advantage.
Reports financials honestly, takes responsibility and admits mistakes.	Found to willfully alter accounts to hide costs & losses & to boost short-term profits.

Usually, if the senior directors (especially the CEO) hold a substantial amount of company stock, it is safe to assume that they would act in the best interests of the company. You can easily find out how many shares each of the directors hold by reading the annual report under 'proxy statement' or 'corporate governance section'. However, if the CEO or key directors suddenly sell a big chunk of their shares, it could be a sign that the company is not one you should put your money into. You can track the insider trades of company directors by going to www.moneycentral.com and looking under 'insider trades'.

Another indication is to look at the compensation packages and executive perks given to senior management. Again, this is declared under the 'proxy statement' or 'corporate governance section'. CEOs who really care about the business usually take a low or average basic salary with a high performance component. This way, they only get generously compensated if the company makes high profits. Good management teams also avoid extravagant executive perks like flying first class and huge expense accounts. Sam Walton of Wal-Mart, one of the largest and most successful businesses in the world was well known for traveling economy to save money for the company and billionaire Warren Buffett pays himself a salary of only $100,000 and has over 70% of his personal wealth in his own company stock (the average CEO's salary is $600,000 to $1 million). This is why

Warren's company Berkshire Hathaway has the most expensive stock in the world ($88,700 per share as of 2005).

Before investing in a stock, you would also want to read about the key developments and major management decisions made in the past five years. You can read about this in past annual reports or go to www.moneycentral.com and look under 'key developments' or 'recent news'. The moment management takes action that seems to be against the long-term interests of shareholders, avoid buying the stock.

If the company you are analyzing passes all the first seven criteria, it means that it is a good business and should have the potential of increasing in value over the years. However, master investors only purchase a stock if the price is really good. Recall that in the short-term, the market tends to over-react to bad news and good news, sending stock prices either above or below their true value.

By buying only when the stock price is below the intrinsic value of the stock, you will have a good chance of making high profits when the market makes a correction. The larger the discount you get from the true value, the wider your margin of error and the lower your risk. For example, when I bought AIG stock for $51 after bad news hit, I was getting a 36% discount off its intrinsic value of $80. I confidently invested a huge amount of my money as I knew that I had a wide margin of error and had little risk of losing money.

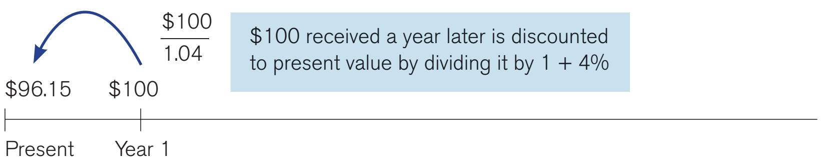
Criteria #8: The Stock is Undervalued: Share Price < Intrinsic Value

Before you can know if you are buying at a good price, you must know how to calculate the intrinsic value of a stock. So, how do you measure the value of a company?

Let me explain using an example. Think of this question, 'What is the most you would pay for a machine that would generate $100 today?' The answer is $100! If you paid $100 for a machine and it generates back $100, you would breakeven. So, $100 is the most you would pay.

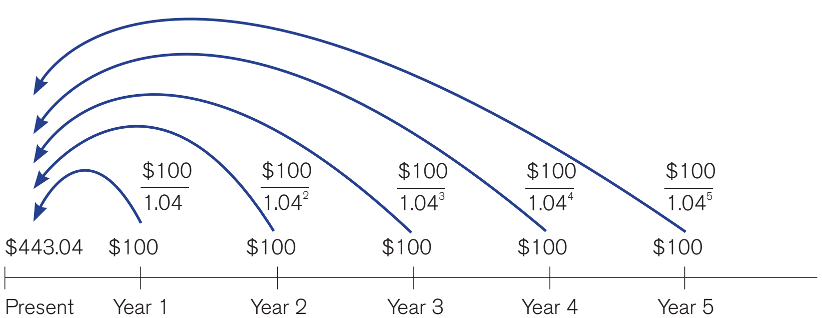
Now, what is the most you would pay for a machine that will generate $100 in one year? Would you pay $100? Of course not. You would definitely pay less than $100, as you would have to wait a year to get your $100 back. So, what is the maximum you would pay today? The answer depends on the risk free interest rate, which is

usually measured by 3-month US Treasury Bills. If the risk free rate is 4%, then you would pay a maximum of $96.15 ($100/ (1+ 0.04)) for the machine today. Why? Well, if you were to put that $96.15 in a risk free investment earning 4%, you could get $100 a year later. So, $96.15 is the present value you would place on $100 to be received a year later. In other words, **money received in the future is worth less today**. To find out the present value of $100 received in one year, we divide it by 1+0.04 (risk free rate) to get $96.15. This is known as discounting future value to present value.



$100 received one year later is worth $96.15 today.

Now, how much would you pay for a machine that will generate $100 in one year, $100 in the second year, $100 in the third year and so on till the fifth year? To find the answer, you would have to discount each future payment to its present value.



$100 received in year 1 will be worth $\$100/1.04 = \$96.15$ today
$100 received in year 2 will be worth $\$100/1.04^2 = \$92.46$ today
$100 received in year 2 will be worth $\$100/1.04^3 = \$88.90$ today
$100 received in year 2 will be worth $\$100/1.04^4 = \$85.48$ today
$100 received in year 2 will be worth $\$100/1.04^5 = \$82.19$ today

So, the present value of the entire five payments would be worth $445.18 today ($96.15 + $92.46 + $88.90 + $85.48 + $82.19). The value of the machine will be worth a maximum of $445.18 today.

Similarly, when you buy a stock, you are buying part of a company that would generate cash every year, year after year. Therefore...

The Intrinsic Value of a Stock is Equal to the Present Value of All Its Future Cash Flow from Operations.

In theory, the intrinsic value of a company is calculated by adding up all its future operating cash flow to perpetuity and then discounting it to the present value. However in reality, companies do not last forever. To be very conservative, assume that the company will only last for ten more years. So, we will calculate the intrinsic value of a stock by adding up all the projected cash flow from operations over the next ten years and discounting it to the present value.

Calculating the Intrinsic Value of Anheuser-Busch

Let's once again take the example of Anheuser-Busch and calculate the intrinsic value of the stock in the year 2004. Before we can project the operating cash flow for the next 10 years, we have to calculate the average annual operating cash flow growth rate over the **last 5 years** as an indication. By using a financial calculator, you can easily find that operating cash flow grew by 7.1% annually for the past 5 years. So, we will assume that operating cash flow will continue to grow at 7.1% over the next 10 years.

How DO You Calculate the Operating Cash Flow Growth Rate?

By going to the statement of cash flows, you can easily find the 'operating cash flow' (cash from operations) of the company for the last 5 years. For Anheuser-Bush, it is as follows:

Yr 1999	$2,084.3m	Yr 2002	$2,765.2m
Yr 2000	$2,257.5m	Yr 2003	$2,970.9m
Yr 2001	$2.360.6m	Yr 2004	$2,940.3m

Using a financial calculator, we can easily calculate the average annual compounded growth rate of cash flow over the last 5 years. First, set it to 'compound interest mode'. Then key in the following:
PV: −$2,084.3, FV: +$2,940.3, N: 5, P/Y: 1, C/Y:1, PMT:0
SOLVE for 'I'. You should get '7.12%'
This means that on average, cash flow from operations has been growing at 7.12% annually for the last 5 years.

PV: Present value. FV: Future value. N: Number of periods. P/Y: Number of payment periods a year. C/Y: Number of compounding periods a year. PMT: Payment per period. I: Rate of return.

Projecting Operational Cash Flow for the Next 10 Years (CF Proj)

Since the cash flow from operations is $2,940.3m in 2004, we can project that it will be $3,150m in 2005, $3,374m in 2006, $3,614 in 2007 and so on (just increase it by 7.1% each year). This can be seen in Table 1 under **CF (Proj)**, which means 'Cash Flow Projected'.

Calculating a Discount factor (DF)

Now, remember that money received in the future is worth less today. So, we have to discount all future cash flow by a discount factor. Taking a very conservative risk free rate of 4%, the discount factors **(DF)** are derived by dividing 1 by 1.04^n, where 'n' is the number of years to be discounted. Thus the discount factors you see in the Table 1 below are 0.96 ($1 \div 1.04$), 0.92 ($1 \div 1.04^2$), 0.89 ($1 \div 1.04^3$) and so on.

Discounting all Future Cash Flows to Present Value (DV)

The discounted value of all the future cash flows **(DV)** is derived from multiplying the projected cash flow with the discount factor (DV = CF (Proj) x DF). From Table 1, you can see that the discounted values **(DV)** of all the future cash flow are worth $3,024m, $3,104m, $3,216m, $3,290m and so on.

Table 1

Calculating the Intrinsic Value of Anheuser-Busch Company

Present year is 2004
Operating cash flow growth rate 7.12%
Discount rate = risk free rate 4%
Operating CF 2004 = $2,940.3m. Current share price = $44
No. of shares outstanding = 776.37 million

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CF (proj)	3150	3374	3614	3871	4147	4442	4759	5097	5460	5849
DF	0.96	0.92	0.89	0.85	0.82	0.79	0.76	0.73	0.70	0.68
DV	3024	3104	3217	3291	3401	3509	3617	3721	3822	3977

- Values are in millions (US$)
  Value of Company = Add up all the DV = $34,683 million
- CF (Proj) are rounded off to the nearest million

The intrinsic value of the **whole company** would be the sum of all the discounted operating cash flow over the next 10 years. So the intrinsic value of the company is calculated to be $34,678 million ($3,024 + $3,104 + $3,217, +... + $3,822 + $3,977).

To get the intrinsic value of one stock, take $34,683 and divide it by the total number of shares outstanding (i.e. 776.37 million shares). So,

$$\textbf{the intrinsic value of one stock} = \frac{\textbf{\$34,678 million}}{\textbf{776.37 million}} = \textbf{\$44.67}$$

Once the share price goes below $44.67, you can safely buy knowing that you are buying at a discount of its true value. In the final quarter of 2005, it dipped below $41 and that is when I started accumulating this great business confidently.

> The good news is that I don't expect you to do all this calculation manually. I have created a Microsoft Excel Template where you have to just key in 'projected cash flow growth rate', 'current operating cash flow' and 'number of shares outstanding' and the intrinsic value per share will be automatically calculated for you. You can download this template for free at www.adam-khoo.com/bizandmoneytips.html under 'Free Business and Money Making Downloads'.

> **Note:** If you go to some research sites like www.morningstar.com, you would usually see a much higher intrinsic value given to the stock. This is because most stock analysts take the present value of all future cash flows to perpetuity. By taking cash flow for only the next 10 years, I am being extra conservative.

So what if you find a great business but the stock price is above the intrinsic value?

So, what do you do if your stock passes the first seven criteria but the stock price is currently above the intrinsic value? The answer is to wait for a disaster to strike (it always will... it is only a question of when) and let the market over-react, pushing your great business down to a price where it is undervalued. This is the time you should enter and buy like crazy. The best investors in the world stay by the sidelines when optimism is high and stocks are expensive. They save all their money for the time when the market is weak. That's when they start buying up all the great companies for a song.

In fact, Warren Buffett was criticized for keeping lots of cash and refusing to make a single investment when the stock markets were booming from 1999 to 2000. He had the last laugh when the market crashed by more than 40% over the next two years, giving him the opportunity to buy all the best companies at ridiculously low prices.

So… When Do You Sell?

The next most important question people ask is when they should sell the stock to take their profits. When you need the money? When the price has gone up by 20%? 50%? 100%? When the stock drops below a certain 20%? These are the common strategies used by people who have no idea what the stock is really worth.

You cannot just look at the price to determine if the stock should be sold. You must look at the price **in relation** to the intrinsic value of the stock. Even if a stock price increases by ten times, you should still not sell if it is undervalued. This is because holding on to an undervalued stock will still give you higher returns in the future.

For example, I first bought stock in Osim International (maker of health products) in 2001 at an average price of $0.46. Two years later, when the price doubled to $0.90, many of my friends thought it had gone up so high, it cannot go any higher, so they sold for a profit. Using the Discounted Cash Flow Model, I found that the intrinsic value of Osim stock was $1.70. Which means at $0.90, it was still highly undervalued at a 47% discount. Instead of selling, I bought even more stock at $0.90. Here is an extract of how I came to an intrinsic value of $1.70...

INTRINSIC VALUE CALCULATOR (CASH FLOW 10 years)
(Be consistent with the denominations used. Usually Millions $)

Cash Flow (current)	$21.00									
Cash flow growth rate	20.00%									
Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cash flow (Projected)	$25.20	$30.24	$36.29	$43.55	$52.25	$62.71	$75.25	$90.30	$108.36	$130.03
Discount Factor	0.96	0.92	0.89	0.85	0.82	0.79	0.76	0.73	0.7	0.68
Discounted Value	$24.19	$27.82	$32.30	$37.01	$42.85	$49.54	$57.19	$65.92	$75.85	$88.42
PV of 10 yr Cash flows		$501.08								
No. Shares Outstanding		295.37								
Intrinsic Value per share		$1.70								

Today, as I am writing this book (3 Mar 2006), the last stock price was $1.89, giving me a return of 110% from the time I purchased it at $0.90 and a 320% return ever since I first purchased it at $0.45.

At the same time, there are many traders who follow the 20% cut-loss rule. This means that the moment the stock price falls below 20% of your purchase price, you should sell immediately to limit your losses. If you are a short-term speculator, then it makes a lot of sense. However, as a true investor who is looking for consistently high long-term gains, you must look at the reason for the stock price plunge.

If it is because of external factors like war or recession that do not affect the intrinsic value of the stock, then instead of selling, you should take the opportunity to buy more because you know that eventually the war or recession will end, leaving you much richer. If it is because of a poor management decision that hits short-term profits but does not affect the company's long-term sustainable competitive advantage (i.e. in the case of Mattel making a bad acquisition that cost it $200m in losses), then again it is an opportunity to take advantage of the market's short-term fear and buy even more.

However, if the stock price drops because of bad news that does not seem temporary, then you must sell immediately! For example, if the company loses its competitive advantage, suffers a big drop in profit margins because of a more powerful competitor or if the CEO is involved in a scandal that seems irrecoverable, then it is best to cut your losses. In general, you should only sell in five circumstances:

1. You found you made a mistake when evaluating the company, as it does not meet all the 8 investing criteria.
2. During your regular quarterly evaluation, you notice a negative change in one of the first 7 investing criteria, and it does not seem temporary (e.g. fall in profit margin, earnings per share, return in equity etc...).
3. Management takes action that is not in shareholder's best interests or dilutes their stakes significantly.
4. You identify an even better company that is selling at an even bigger discount to intrinsic value. Even though your current stock is still good, you may want to sell, take the proceeds and put it into an even better investment.
5. During your regular quarterly evaluation, you find that the stock has become over-valued. i.e. the stock price is now higher than the intrinsic value.

So there you have it. You have now learnt the most powerful investing strategies that will help you to achieve millionaire returns. You have learnt how to buy the market, how to pick winning mutual funds and finally, how to select a winning portfolio of individual stocks. However, there is no better way to fully master the strategies than to get your feet wet by starting to analyze some companies which you think may have the potential to do well.

So where do you start looking? Obviously, you are going to take forever to find a suitable investment if you just start alphabetically as there are at least 30,000 companies that are actively traded in the US and thousands more on the Asian bourses. Here are a few suggestions on where you can start looking...

1. Ask yourself what products or services you buy that you think are consumer monopolies. The next time you go shopping, ask yourself, 'what products must the shops carry?' or 'what are brands that everyone knows and almost everyone has to buy?' These will usually be companies that have a very strong competitive advantage. In fact, most of Warren Buffett's most successful investments were in companies that made products he loved! These included The Washington Post, Coca-Cola, Nike, Gillette and Budweiser.
2. Go to stock research sites like www.moneycentral.com, www.morningstar.com and start with the stocks which they give the highest ratings for.
3. Find out what Warren Buffett has been buying through his company Berkshire Hathaway. You should be able to find his latest purchases by searching 'Buffett buys' under Yahoo!, MSN or Google.

If you want to learn the latest strategies I employ in investing (technology changes every few months) or if you want to truly master the art of creating wealth then come to Wealth Academy, a four-day live seminar where I will personally bring your financial education to a whole new level.

YOUR MILLIONAIRE MASTER PLAN

section VIII

chapter 20

Designing Your Millionaire Road Map

Welcome to the final chapter of this book. I am sure you agree that it has been a fantastic journey discovering the many paths towards a richer more abundant life. I am sure that you have been inspired by the many examples and stories of how ordinary people have created extraordinary wealth and how you can do the same!

Over the last nineteen chapters you have learnt how to think like a millionaire. You have learnt how to massively increase your value and how to create multiple streams of income. You have also learnt the art of managing your cash flow and creating a personal financial plan. You discovered how anyone with a great idea can tap into a huge world market with the power of the Internet. Finally, you learnt the secrets of how master investors generate millionaire returns from the stock markets.

So with all this knowledge and tools, you must begin to design your millionaire roadmap. You must ask yourself the fundamental question, 'What kind of life do I want to create for myself ?'. 'Where do I see myself in the next five, ten or twenty years?'. Imagine that you are a builder who now has all the tools, equipment and raw materials to build the most beautiful mansion. Before you can start building this mansion, you must have a vision of what it would look like when it is finally complete. You must have a clear picture in your mind of how many rooms there will be, the location of the doors, the windows, the color of the roof, the number of stories it will have and so on. It is only when you have the blueprint of the mansion that you can begin to build it. Can you imagine someone building a house with no plans and with no idea of what the end product will look like? Sounds crazy right? Well, amazingly this is how most people live their lives! They work everyday of their lives with no

clear idea of what they are working towards. It's like a builder who places one brick each day not having a clue of what he is building. The place he lays his brick is dependant on where he is standing on that day. What do you think is going to happen in the end? He will end up with something that he never expected, like a wall!

I believe that you are not someone who wants to leave his destiny to chance. I believe that you want to have the power to design your destiny... and you definitely have the power now! You see, unless you have a clear outcome in mind and start taking massive action towards it, the power of the knowledge you have acquired will never be realized. When you set clear goals about what you want, it allows you to channel all your energy in a specific direction. Setting specific goals will then allow you to develop a specific strategy and action plan to reach there. For example, if your goal is to achieve financial abundance in five years with a $20,000 a month lifestyle, then the strategy and action plan you will have to take will be very different than if your goal were to retire in fifteen years with a $10,000 a month lifestyle. To achieve the first goal, you would need to create a lot more income streams, target a higher rate of return on your investments and invest a greater amount of time and energy each month. However without a goal, you will have no clue of how and what should be done.

The Power of Designing Your Destiny

Let me illustrate to you a very well known example of the power of goals. In 1952, there was a research study done on the impact of goal setting on the graduating batch of students at Yale University. When asked how many of them had clearly specified and written down goals, only three percent responded. The remaining ninety-seven percent, despite being highly intelligent and hardworking, had no road map where they would be five to ten years after graduation. Twenty years later in 1972, a follow up study was done on the class of 1952. What they discovered was shocking, the combined income of the three percent who had clear goals was greater than the entire income of the ninety seven percent combined! Was it just a coincidence or does having clear goals really have an impact on a person's personal and financial success?

If you were to study the life stories of the most successful people in history, you will discover that their achievements didn't happen by chance. At a certain point of time in their lives, they dared to dream about something they wanted to create. They then allowed this dream to guide their actions until they made it a reality.

We have talked and learnt so much about Warren Buffett in the past chapters. Did his ability to invest and his eventual wealth come about by chance? Absolutely not. From a very early age young Buffett was obsessed with making money and had a very clear dream of becoming the world's greatest investor. Born during the depression when his father was close to bankruptcy, Warren learnt about the value of money and the importance of being financially secure at an early age.

Even before his teens, Warren knew that he wanted to be rich, very very rich. As early as elementary school and later on in high school, he would tell his classmates that he wanted to become a millionaire before the age of 35 (when he turned 35, his net worth exceeded $6 million). It was because of his goal that he constantly thought of ways to make money, while most other kids his age would be spending their parents' money. He even memorized a book called 'A Thousand Ways to Make $1,000'. At the age of six, he started buying coke bottles at 25-cents per six-pack and selling them at 5-cents a bottle, giving him a 16% gross profit, as he would tell himself. At the age of 13, he got a job delivering newspapers and through innovative marketing and distribution strategies, he served five hundred customers a day. At the age of 11, he took all his savings and started investing in the stock market. His first investment was three shares in a company called 'City Service'. While most kids his age were reading comic books, Warren spent his time reading company annual reports. By the age of 14, he started a pinball business and was earning $175 a week, as much as the average 25-year old was earning in 1944. Would he have taken all those actions if he never set a goal to be rich in the first place? Of course not. It was clearly because of his focus of energy and actions that allowed him to become the best in what he does.

What if you have no clue as to what business or career path to take? Well, it doesn't matter! Sometimes, just setting a specific financial goal will get your mind thinking and guiding you towards

the right path. Before George Lucas left his hometown for college, he already predicted that he would be a millionaire by the time he was thirty. However at that time, his passion and dream was to make it as a racecar driver. It was after he suffered a terrible crash that he began to change his mind about that career. It was only after that accident that he decided that he wanted to become a filmmaker. As a result of his focus on pushing himself to be the best in anything he did, he became a millionaire by the age of 28. However, as I mentioned in chapter three, the primary driving motivation of millionaires is not the money they will make, but the passion they have in what they do. The financial goal they set is only a means of measuring their success. However, what drove Lucas to give his all in the face of insurmountable odds to finish Star Wars was not the money he would make, but his dream of seeing his fantasy come to life on the big screen. Tiger Woods never really set a goal to become a millionaire. However at the age of eight, he gave an interview on TV, after winning an amateur golf tournament. During that interview, he declared that his goal was to become the world's number one golfer and that he would break all of Jack Nicklaus' records. It was that obsession that got him to focus a hundred percent of his time, energy and thoughts into his game. Fourteen years later, Woods became the world's number one at the age of 22... again not by chance, but by design.

The Five Keys to Designing Powerful Goals

There are five key characteristics that your goals must possess in order for them to be achievable and motivational. Don't expect to just scribble a couple of new year's resolution on a piece of paper and expect it to happen. In setting your goals, you have to ensure that they are/have:

a. Specific & Measurable

One of the main reasons why most people never achieve what they want is because they are not definite about what they want. Whenever I ask people what they want to achieve in the next ten years, I normally hear very general, vague and non-committal answers like 'I want to have more money', 'I want to get a better

job', 'I want to be free from worries', 'I want to retire early'. The question is, 'how much money specifically? By when? What new career do you want to succeed in specifically? What income do you demand? What kind of lifestyle do you want to retire to? How much cash flow would you need a month?' These questions I ask usually draw a blank stare with the usual 'I don't know' response. Either they have no clue what they want or they have a fear of making a commitment, because they have been disappointed before.

When you have a vague goal like 'make more money... as much as I can', there is NO WAY you can achieve it. How do you measure 'more'? How do you know when you have achieved it? When your goal is not specific and not measurable, you will have no clue as to what you have to do to get it. Should you get a new job? How much do you need to invest each month? How many new income streams do you need? There is no way you can come up with a plan and take any sort of action.

However, if you set a very definite goal like 'Earn an income of $20,000 a month by twenty four months', you can start developing a plan to get there! For example, if you are an insurance advisor and your current income is $5,000 today, you know that you must find a way to create $15,000 more value! It will drive you start thinking and doing things differently. Remember that EVERYTHING is possible, it is only a question of using the right strategies. For example, you may learn that there are people in your company who are earning $9,000 a month! You could start modeling their strategies and finding out how they generate leads, how many leads they generate each month, the number of sales appointments set up in a day, the kind of customers they target, their style of presentation, the way they close, how they follow up and so on... If you use the same strategies and take the same action, you WILL get the same results. Even if you happen to be in a fixed salaried job, you can set a target to get promoted to a more senior position or to ask for an incentive scheme, then find out exactly the kind of results you must produce to get there.

Even when you increase your income to $9,000, you know that you must create additional income streams of $6,000. You could come up with a plan of building a home-based business around your passion that could generate for you an extra $3,500, write a book

or develop some form of intellectual property that can generate an additional income stream of $1,000 and make an extra $1,500 by tutoring on weekends. As you can see, by setting a specific target of $20,000, it forces you to develop the ideas and plans to get there. Will all your ideas work? Will you definitely hit $20,000 in twenty four months? There's no guarantee that it will happen. However, I can bet that if you were to take massive action to implement all these ideas, your income will definitely increase by a significant amount!

Remember that when you set a goal, you may not always achieve it the first time around. It doesn't matter. What matters is that you have made progress and moved towards your goal. As long as you take the feedback, improve your strategy and continue taking action, you will eventually reach your desired outcome (remember Millionaire Habit 8).

b. Stretch & Challenge You

What do you find more exciting? To increase your income by ten percent or to double it? Does the goal of attaining financial freedom in ten years sound more motivating or fifty years? What would motivate you more to wake up in the morning? The thought of earning enough money to pay your bills or to go out and build ten new income streams that will allow you to live the lifestyle of your dreams? The reason why most people don't get motivated towards their goals is because their goals are not exciting enough. People are lazy simply because they have got puny, uninspiring goals. When you set big, inspiring and exciting goals and fantasize yourself achieving it, you will start to feel the excitement build inside you!

So, you have to set big and exciting goals that ignite your imagination and passion! Setting challenging and inspiring goals also forces you to think out of the box and stretch yourself out of your comfort zone. For example, if you set an incremental goal of increasing your income by ten percent, what are you likely to do? You will probably work a lot harder and hope for a raise.

However if you were to set a goal of doubling your income, you know that it will be impossible to achieve if you were to keep doing the same thing. In order to double your income, you will be forced to think of new and innovative strategies to make it happen!

And I am sure with all the techniques you have learnt in this book you will be able to come up with at least a dozen new ideas. Again, does it mean that you will always achieve the goals you set the first time around? No! But if you aim for the moon, and fall short, you are still going to be among the stars. But if all you dare to do is to aim for the horizon, you are going to hit the ground.

> 'Impossible is a big word thrown around by small men who find it easier to live in a world they've been given than to explore the power they have to change it'
> – Adidas Advertising Campaign Message

The most common excuse people have for not daring to aim high is the fear that they are 'not being realistic'. Well, do you think it was realistic for me to set a goal of achieving my first million by twenty-six? Was it realistic for eight-year old Woods to aim to become number one in a sport dominated by whites at the time? Was it realistic for the Wright Brothers with no formal background in engineering to think they could build a flying machine? Whether a goal is realistic or not depends on the strategy you employ. Just because something hasn't been done before or is rarely accomplished doesn't mean it is not realistic. It simply means that not many people have had the conviction to find the right strategy. If I had been like all my other friends in school who went with the flow and just studied hard to get a nine to five job, then making a million by twenty six would be ridiculous. But because I was willing to do things differently and model the strategies of self-made millionaires, my goal WAS realistic. So as long as you are willing to commit to do whatever it takes to find a way, any goal is realistic (Millionaire Habit 7). So when you get the opportunity to design the life you want, I want you to throw fear and caution to the wind and allow yourself to dream big.

c. Driven by Powerful 'Whys'

Another main reason why many people lack the motivation to achieve their financial goals is because they are not clear about

WHY they want it. Many participants I meet keep telling me that they want to make a million dollars or that they want to achieve financial abundance. When I ask them the question, 'why is it important for you?', I find many lack a compelling reason. Many give very shallow responses like, 'to buy what I want'. You see, unless you find a strong enough reason why you want something, you will never be motivated to get it.

I am sure you don't want money for the sake of having lots of colored pieces of paper. You want money for what money as a resource can do for what's important in your life, like your family, your health, your spirituality and your personal happiness. As human beings we are primarily driven by emotions. Everyone has got different key emotions or hot buttons that drive them. These key emotions are called our values! Some people are highly driven by the value of 'recognition' and 'winning' (i.e. Donald Trump). What drives Donald Trump is that he is an extremely competitive person who hates losing. The thought of betting and winning on huge deals is what fires him up everyday. The money he earns is just a way he measures his winnings. Some people are driven more by the value of 'security' (i.e. Warren Buffett). I guess the fact that Warren was born in a family that suffered financial difficulties instilled in Warren the importance of security as a value. This value is a key driver in his motivation to earn lots of money. Others are driven by the value of 'contribution'. Take George Soros. What drives this billionaire investor is not making money to finance a lavish lifestyle. His purpose for making billions is for 'political philanthropy'. He uses his money to export democracy, as he believes that that is the key to improving lives. I also know many extremely dedicated and hardworking financial advisors who still push themselves to the limit everyday even though they are already wealthy. Why? Because they feel the drive of going out there and making a difference in people's lives. Again to them, money is just a measure and a tool to help even more people.

So, you have to ask yourself what key values drive you in life? Are you driven by recognition, security, freedom, family, God, friendship, love, power or a sense of contribution? (Read my other book 'Master Your Mind, Design Your Destiny' if you want to learn more about the power of values and how to discover your driving force).

Think about this for a while and write down five of the most important values in your life. It helps by asking yourself the questions, 'What's important to me in life? What drives me as a person?'.

My Values

1 ______________________

2 ______________________

3 ______________________

4 ______________________

5 ______________________

Once you know what your values are, you have to use them to drive you towards your goals. For example, if your goal is to double your income in twelve months, you have to write down all the reasons why this is really important to you. Only if your reasons are aligned to your core values will you be truly driven to achieve them. Here are some powerful reasons that drive people to make their millions...

- To feed the poor and do more of God's work. (contribution)
- I want to prove to myself and others that I can succeed. (pride)
- I want to be the best in my industry. (success)
- To give my family members the very best in life. (family)
- Doubling my income means doubling the value I create to my customers and the people around me. I will be making a difference to more lives through my work. (contribution)
- I will have peace of mind knowing that my family's needs will always be met. (security)

d. An Action Plan

You can set the most inspirational goals with the most powerful 'whys' but if you are not able to come up with a concrete action plan of HOW you intend to make it happen, your goals will always be unrealistic. Goals are nothing but dreams. When you come up with a plan, that dream becomes POSSIBLE. When you take action on your plans, it becomes a REALITY.

To achieve a portfolio of say $300,000 in three years, you must have a plan of how much you intend to earn each month, and how you are going to create those additional income streams. You must plan how much you must save and invest each month and the targeted rate of return you need to end up with $300,000 in three years.

At the end of this chapter, I have attached a 'Wealth Creation Worksheet' that I use to plan my new wealth creation ideas. This worksheet will guide you in thinking of all the resources you will need and the steps you need to take to turn an idea into an income stream.

e. A Deadline

Only when you commit to a specific deadline will you be able to develop an achievable plan and have the sense of urgency to make it happen.

Design Your Millionaire Road Map Now…

So with all the five keys of goal setting in mind, it's time to ignite the fire of inspiration within you and allow yourself to dream of the life you must create for yourself.

As earlier mentioned, it is not about making money per se that will motivate you in the long term, but rather what that money will achieve for you in the other areas of your life. So you cannot set financial goals in isolation. You have to set financial goals in relation to the goals you want to achieve for your family, the community, your friends, your health, your personal desires and so on.

In the next few pages, I want you to be 100% committed to write down all the goals you want to achieve in the major areas of your life. It is important that you free yourself of any possible distractions for the next twenty minutes. Lock yourself in a room and put on some inspirational music if possible. I want you to suspend your judgment and write from your heart. Don't worry too much if you think it is achievable or not at this time. The important thing is to allow your mind to think of POSSIBILITIES and get yourself excited about what can be. So when I say go, I want you to write down all the goals you want to achieve in the following areas. Be as specific and measurable as possible. And remember, make your goals big and exciting and put a deadline to it. Ready? Go!

Personal Desires and Lifestyle

What is your dream lifestyle? What are all the personal desires that you have always wanted to fulfill? Do you want to travel round the world? Buy a beachfront vacation home? Drive a sports car? Build your dream house?

Contribution to Society and God

Do you want to build a foundation that will help the disadvantaged? Give scholarships to needy students? Go on relief missions? Lead your community? Give to your religious organization? Feed the poor? Adopt orphans from third world countries?

Family and Friends

What do you want to be able to do or contribute to the people you love and care about? Do you want to be able to send your children to the best schools? Spend more time with them? Renovate your parent's apartment? Bring your spouse on a round the world trip? Buy your loved ones what they have always wanted?

Health and Personal Development

Do you want to go back to university to do an MBA? Buy and learn to play a grand piano? Invest in a gym membership?

Obviously, many of these goals you have set require money as a resource. So, write down all the financial goals that you want to achieve in the short-term and long-term.

Financial Goals

What is the income you must create for yourself in the next one to ten years?

What new income streams do you commit to develop?

How much do you target to save and invest each month?

What specific targeted amount do you plan to save for in a given period? For example: Save $200,000 for the down payment of a house in five years.

When do you aim to achieve the four levels of wealth? i.e. Financial stability, security, freedom and abundance? What are the different positive cash flow assets you will use to achieve your targeted passive income? Here is the opportunity to fill in the financial plans that were presented earlier in chapter five. (Do refer back to Chapter 5 on the four levels of wealth).

Financial Plan to Achieve Financial Security

Targeted Passive Income: ____________________

+ Cash Flow Asset	Investment	Return%	Passive Income
1			
2			
3			
4			
5			
		Total	**$**

I commit to achieve this target by ____________

Financial Plan to Achieve Financial Freedom

Targeted Passive Income: ____________________

+ Cash Flow Asset	Investment	Return%	Passive Income
1			
2			
3			
4			
5			
6			
7			
		Total	$

I commit to achieve this target by ____________

Financial Plan to Achieve Financial Abundance

Targeted Passive Income: ____________________

+ Cash Flow Asset	Investment	Return%	Passive Income
1			
2			
3			
4			
5			
6			
7			
		Total	$

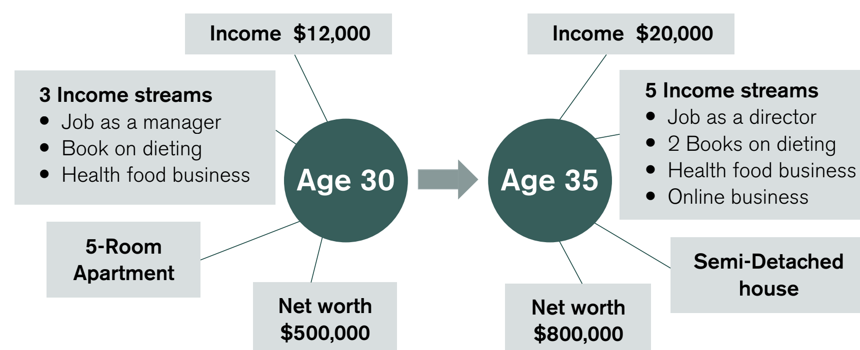
I commit to achieve this target by ____________

Designing a Personal Road Map

So, what should you do with all these goals you have set? The typical person would get excited for awhile, then put it aside and it's all forgotten after a while and go back to living their life the way it always was.

If you want to stay focused on these goals, then you have to look at them every day. They have to be at the top of your mind! What I personally do is to pin my goals up next to my working desk. I even type them out and digitally paste them on my computer desktop so I am reminded of them whenever I turn on my computer.

What will make your goals very compelling would be to visually organize them as a huge flow chart or a timeline where you can see your financial progression over the years. For each age milestone, list the goals that you would have achieved at that particular age. I also cut out pictures (from magazines) of stuff that I dream of buying and stick them on my flowchart. For example, I used to paste a picture of a beautiful two-storey house next to 'Age 33'. By age 31, I achieved that goal of buying my dream house. Below is an example of how you draw the flowchart.



Getting Yourself into Action

One of the key challenges you will face is to stay motivated over the long-term. Many people know what to do and even how to do it but they just don't do it! They procrastinate. Procrastination is usually the number one killer of success. Learning how to overcome procrastination and re-wiring your neurology for success is beyond the scope of this book.

In 'Master Your Mind, Design Your Destiny', my earlier best-selling book, it teaches how to take charge of one's mental and emotional states so fear can be turned into power and procrastination into enthusiasm. However, there are three powerful strategies you can use to get yourself to overcome procrastination and take action now!

a. Make a Public Commitment

As mentioned earlier, when you share your dreams and goals with friends, family members and colleagues, you put yourself on the line to make it happen. When you make your goals known, some friends will never let you forget it!

b. Have a 36-hour Action Plan

The most difficult thing to do is to take the first few steps towards a goal. All of us have experienced an internal 'inertia' that stops us from getting started. However, you will find that the moment you take the few steps and start seeing progress, you will gain the momentum to continue until the goal is accomplished.

I suggest that for each of the goals set, you write down three action steps that you must take within thirty-six hours of setting them. If you take those three action steps, it is highly likely you will continue taking action. For example, if your goal is to start an Internet business selling specialized cookbooks, what are three steps you could take immediately to get you committed? Well, you could (1) register a domain name, (2) write up a business plan and (3) Pay $200 to register your business. I guarantee you that by taking these three steps immediately, your brain is going to take you seriously and get you to take even more action.

c. Find a Support Group

I cannot emphasize how important it is to find a supportive group of friends. I have found that the number one reason for people losing their direction and motivation is because of the kind of people they hang around with everyday. You can get really inspired from this book and all the goals you've set but if you keep mixing around with and talking to friends who waste their time with idle chit chat and spend their free time clubbing, then you are going to lose the success battle.

On the other hand, if the people you mix around with constantly talk about the stock market, bounce ideas about new business opportunities and spend their time analyzing investments then trust me, you will stay on track to make your millions. It is a common saying that 'friends make you or they break you'. The people you spend time with will greatly influence your dominant beliefs, values, thoughts and aspirations. So, do whatever it takes to find a group of friends who share the same financial dreams as you and make it a commitment to support and push each other on. In fact, many participants who have attended my live Wealth Academy seminars have told me that one of the greatest benefits they gained was the people they met there! Many of the friends they met have been a great factor in their success after the program. In fact in Wealth Academy, we highly encourage people to form **Wealth Builder Groups** that meet monthly so members can support each other to achieve their dreams.

The Power of a Wealth Builder Group

In the classic best-selling book 'Think & Grow Rich', Napoleon Hill found through intensive research that the five hundred richest men in the world all had one thing in common, they all belonged to a strong support group of like-minded individuals where they received the knowledge, advice, resources, contacts and emotional support to succeed in their creation of massive wealth.

Yes. It has been proven time and again that behind every successful individual is a successful team. They are either made up of a team of friends, colleagues or business partners. Why must you always have a strong support group in order to reach your financial goals? This is because it takes a great deal of knowledge, talent, resources, contacts and ideas to make a million dollars, and it is difficult for a single individual acting alone to do it all within a short period of time. Having a Wealth Builder Group allows you to leverage on the collective experience of others... and leverage is the key to wealth. Remember! People are your greatest resource to wealth!

a. Exponential Creative Power Unleashed

When you generate wealth creation ideas alone, there is a limited amount of knowledge, experience and inspiration you can tap on.

When a team of people generates ideas, the creative & knowledge power increases exponentially.

This is known as the power of synergy. Five people working together will create the creative power of fifty minds! All the best ideas in the world were the result of combining great ideas from more than one person.

For example, let's say you are a great cook and would like to start a food business that could give you massive cash flow. You may be a specialist at cooking, but may lack the knowledge and resources in locating a retail space, knowing how to find the right suppliers, financing, hiring and training staff, marketing and the creation of a business process.

With the right group, your friends could provide you with the knowledge about areas in which you have little experience in, and valuable contacts that would accelerate your business. You will get ideas, solutions and contacts that you would never have if you were to do it alone.

b. The Power of Contacts

Have you heard of the saying, 'It is not just WHAT you know but WHO you know?'. How true this is. Having a powerful network of contacts will get you the best employees, business partners, suppliers and most important of all... customers! Alone, you probably only know about 300 people or less who you can give a call to. In a group of eight individuals, your contact base becomes 2400 immediately! I can tell you personally that it is because of the right contacts, that I have had so many doors open to me every single time.

c. Fellowship & Support

Let's face it, walking the path of a millionaire can be a narrow and lonely one. Most old friends and family members will think you're crazy, let alone understand and provide you the fellowship & support that we need. With the right support group, you will have a strong group of friends who have the same mindset, goals and values as you do, providing you the continuous encouragement and fellowship you will need to reach your goals.

Final thoughts

With this last paragraph, we come to the end of this book. However, do remember that this is by no means the end of your learning journey. It is only the beginning. No matter how much you learn and will achieve, always remember to stay hungry for success and stay foolish for new knowledge. I highly recommend that you expand your knowledge even further by reading all the books on the 'References' page.

With all the knowledge, lessons and strategies you have acquired in this book, the only thing that will stop you from achieving unlimited wealth is the lack of consistent action. So, take massive action immediately and I guarantee that your wealth will multiply. I do hope that we will meet one day on the streets or maybe at Wealth Academy. I hope to hear about your success story one of these days. If you would like to write to me, you can send me an email at aknews@adam-khoo.com. For more information and success resources, do visit Adam Khoo Learning Technologies Group at www.akltg.com. Good luck and take care.

Yours Truly,
Adam Khoo

Wealth Creation Worksheet	
Name of individual/team:	
The Problem: **The Need:**	**The Wealth Creation Idea** (Specific, Measurable & Stretch)
Resources & Contacts Required Contact No. 1 2 3 4 5 6 7	**Possible Challenges** 1 2 3 4 5
Marketing of Idea Is this idea unique? Does it add value to people's quality of life, beyond what is already available? Is the market big enough? Is the market able and willing to pay? Are there competitors? Can we be #1, 2 or 3?	
Marketing of Idea Is this market growing? Is this idea scalable? (magnify &/or multiply)	
Is it a Good Investment? Does it have low downside & high upside? Does it have a high probability of Success?	

Wealth Creation Strategy

What Needs to be Done	How Should it be Done?
1	
2	
3	
4	
5	
6	
7	

Money = Idea + Action

Wealth Creation Action Plan

Action Step	Action By	Deadline
1		
2		
3		
4		
5		
6		
7		
8		

Action Makes Dreams Real

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